Alberta Heritage Savings Trust Fund

Annual Report 1988-89

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The Heritage Fund was established in 1976 with three objectives:

1. to save for the future;
2. to strengthen and diversify the economy of Alberta; and
3. to improve the quality of life for Albertans.

TREASURY

The Honourable Dick Johnston
Provincial Treasurer

A.J. McPherson
Deputy Provincial Treasurer -
Finance and Revenue

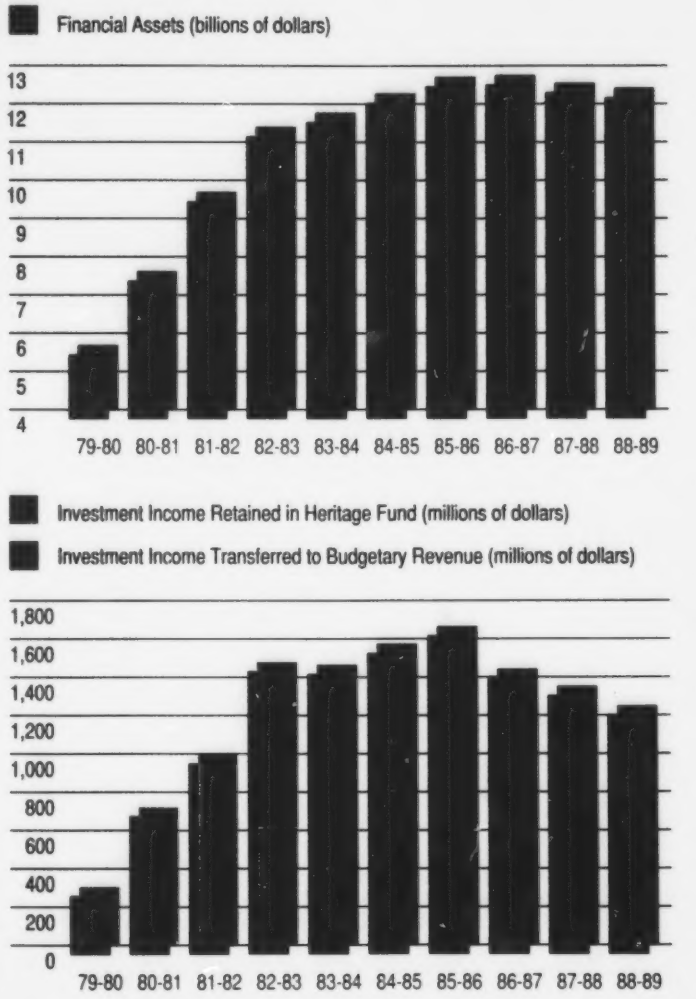
Additional copies of this annual report and copies of the future quarterly reports on the Alberta Heritage Savings Trust Fund may be obtained by writing:

Heritage Fund Reports
302 Terrace Building
Edmonton, Alberta T5K 2C3

or by telephoning (403) 427-9957

Investment Income and Financial Assets

Years ending March 31



Net income of $1.25 billion was used to provide superior services to Albertans and to reduce the province's deficit.

With a $69 million investment from the Heritage Fund, the Millar Western Pulp Ltd. pulp mill was completed and began operations at Whitecourt.

Construction of the $1.27 billion Lloydminster Bi-provincial Upgrader began with an initial Heritage Fund investment of $2.4 million.

An investment of $30 million in shares of Alberta Energy Company is helping to develop Alberta's natural resource advantages.

Small businesses, farmers, agribusinesses, homeowners, senior citizen renters and low-income families benefited directly from $208 million invested in the Alberta Opportunity Company, Alberta Agricultural Development Corporation and the Alberta Mortgage and Housing Corporation.

$2.8 billion of marketable securities earned income for the Heritage Fund while enabling it to respond to opportunities such as the $4.1 billion OSLO Oil Sands project in which investment started in May, 1989.

Irrigation projects, individual telephone line service for rural Albertans, medical research and municipal recreation facilities were among 13 Capital Projects Division investments totalling $155 million.

Provincial Treasurer's Report

In 1988-89, its thirteenth year of operations, the Alberta Heritage Savings Trust Fund continued to play an integral role in Alberta's overall economic, fiscal and financial strategy.

The past year saw a healthy rebound of Alberta's economy with real economic activity increasing by 8.7 per cent. Alberta was the fastest growing province in Canada. The recovery was led by our export sector, reflecting the importance of our economy's growing diversification into manufacturing, food processing and petrochemicals. Increased business and consumer confidence resulted in strong investment growth in the economy. Natural gas sales to the United States grew by over 30 per cent. Tourism and the growing service industries are now a vital part of Alberta's economy. Net farm income increased by 70 per cent to about $1.2 billion in 1988 due largely to higher market prices in the grain sector.

The Heritage Fund supported the strength of our economic recovery. Income from the Heritage Fund helped the government to provide superior services and programs in education, environment, health and other areas. In 1988-89, $1.25 billion of Heritage Fund income was transferred to the province's general budgetary account, increasing total revenues by 14 per cent. Over $9.6 billion has been provided by the Fund since 1982.

The government's commitment is to build upon our resource advantages in agriculture and energy by increased processing of our raw materials in Alberta. During the past year, the Heritage Fund made investments that assisted in the government's diversification efforts in forestry, petrochemicals, agribusiness, heavy oil upgrading, high technology, and tourism. By encouraging the development of secondary industries, the Heritage Fund helps provide quality jobs and protects our economy from swings in commodity prices.

With an additional investment of $69 million, the Millar Western Pulp Mill near Whitecourt was completed and commenced operations in the fall of 1988. It is one of the world's most technically advanced pulp mills and its process enables the customizing of hardwood and softwood bleached pulp.

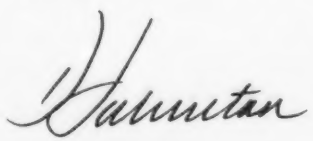
In April 1988, the Heritage Fund purchased $30 million in additional common shares of Alberta Energy Company Limited (AEC) and thus maintained its 35 per cent equity position. With AEC's acquisition of Chieftain Development Company Limited, AEC now ranks among the top 10 oil and gas companies in Canada.

During 1988-89 the Heritage Fund invested $2.4 million in the $1.27 billion Lloydminster Bi-provincial Upgrader, which, when complete, will have the capacity to produce 46,000 barrels of crude oil per day with feedstock from heavy oil and bitumen reserves. Over the next three years, Alberta will invest approximately $305 million through the Heritage Fund as a 24 per cent participating interest in the project.

Alberta Agricultural Development Corporation provides financing to assist in the establishment and expansion of food processing, agribusiness and the farm service sector in Alberta. About $14 million in financing to agribusiness has helped diversify the economic base of rural centres.

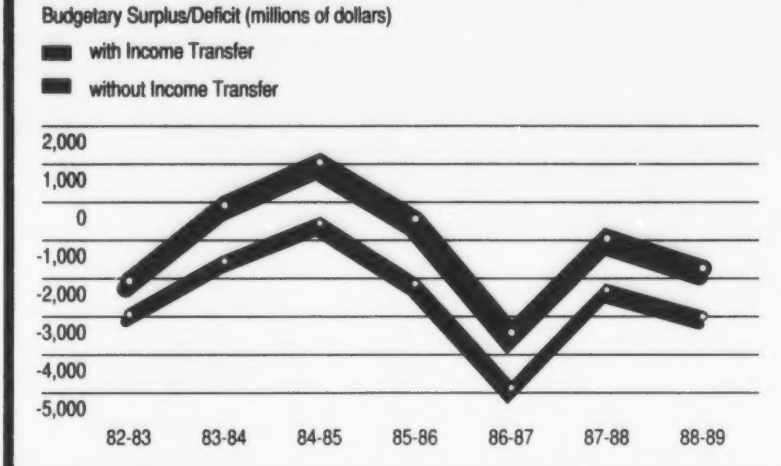
Financial assets of the Heritage Fund are declining modestly by the amount of annual investments under the Capital Projects Division. These investments enhance the quality of life in Alberta and provide long-term economic and social benefits to the people of Alberta. Capital Projects Division expenditures of $155 million in 1988-89 included the development of irrigation projects in southern Alberta, the provision of individual telephone line service for rural Albertans, municipal recreation facilities and research in agriculture, oil sands development and cancer treatment.

By acting as a catalyst for the government's diversification efforts and by providing significant income support, the Heritage Fund helped encourage the strong resurgence in business and consumer confidence and the healthy rebound in Alberta's economy. The Heritage Fund will continue to assist the province's budget and to help us build upon our natural advantages. The Heritage Fund is being fully utilized now to benefit all Albertans.



Dick Johnston
Provincial Treasurer

Impact of Heritage Fund Income Transfer



Contribution to Budgetary Revenues

(millions of dollars)

The Heritage Fund has provided over $9 billion to help finance Alberta's high-quality programs

The Heritage Fund and the Province's Fiscal Strategy

The Alberta Heritage Savings Trust Fund was created in 1976. The government recognized that the rapidly increasing revenues received by the province at that time from the sale of non-renewable resources would not continue indefinitely. The Fund has had three basic objectives since its inception 13 years ago:

1. to save for the future,
2. to strengthen and diversify Alberta's economy, and
3. to improve the quality of life in Alberta.

The Early Years

In the early years of the Fund's existence, Alberta's economy grew rapidly in response to higher prices for our oil and gas resources. The oil boom of that period provided the government with considerable flexibility in the management of the province's finances. While keeping taxes low and providing the highest quality services to Albertans, the government was also able to allow the Heritage Fund to grow quickly through the transfer of 30 per cent of resource revenues received by the province. The Fund also retained the earnings on its investments, and had accumulated financial assets of nearly $10 billion by March 31, 1982.

Responding to Fiscal Realities

In 1982 an economic slowdown resulted in a budgetary deficit. Effective September, 1982, an amendment to the Heritage Fund Act permitted the transfer of investment earnings from the Fund to the province's general revenues. Including the 1988-89 income, over $9.6 billion has been transferred to the province's budgetary revenues since September 1982.

Starting in 1983-84, the percentage of non-renewable resource revenue transferred to the Heritage Fund was reduced from 30 per cent to 15 per cent. Since April, 1987, no non-renewable resource revenue has been transferred to the Heritage Fund. As a result, the Heritage Fund is no longer growing.

All non-renewable resource revenue and investment income are being used by the General Revenue Fund to reduce the budget deficit, contribute to the provision of necessary programs and services, and maintain the lowest overall tax regime in Canada.

The Heritage Fund and Provincial Crown Corporations

The Heritage Fund has investments totalling over $6.2 billion in the debentures of five provincial Crown corporations: Alberta Government Telephones Commission, Alberta Municipal Financing Corporation, Alberta Mortgage and Housing Corporation, Alberta Agricultural Development Corporation and Alberta Opportunity Company. All the corporations borrow at market rates of interest and original terms range from five to 30 years. Like other income of the Heritage Fund, the interest income from these debentures is transferred to the General Revenue Fund for budgetary purposes.

Alberta Government Telephones Commission and Alberta Municipal Financing Corporation are fully self-sufficient, but because of the nature of their programs, Alberta Mortgage and Housing Corporation, Alberta Agricultural Development Corporation, and Alberta Opportunity Company each receive grants from the General Revenue Fund. Grants of $170 million, $71 million and $12 million respectively in 1988-89 enabled these three corporations to deliver their programs at less than full cost, thereby helping thousands of Alberta farmers, small businesses, homeowners, renters and senior citizens.

Requiring the corporations to borrow at market interest rates and providing grants from the General Revenue Fund to the corporations, where necessary, makes the costs of these programs explicit and ensures that the Legislative Assembly has the opportunity to vote on these expenditures as it does for expenditures on other programs. Also, consistent with the Heritage Fund's role as an investment fund, the relevant department, and not the Heritage Fund, is charged the cost of any subsidies involved in the corporations' programs.

Who Makes the Decisions?

The responsibility for the administration of the Alberta Heritage Savings Trust Fund rests with the elected representatives of the people of Alberta and their respective staffs. The chart on page 6 shows the division of the key responsibilities relating to the Heritage Fund.

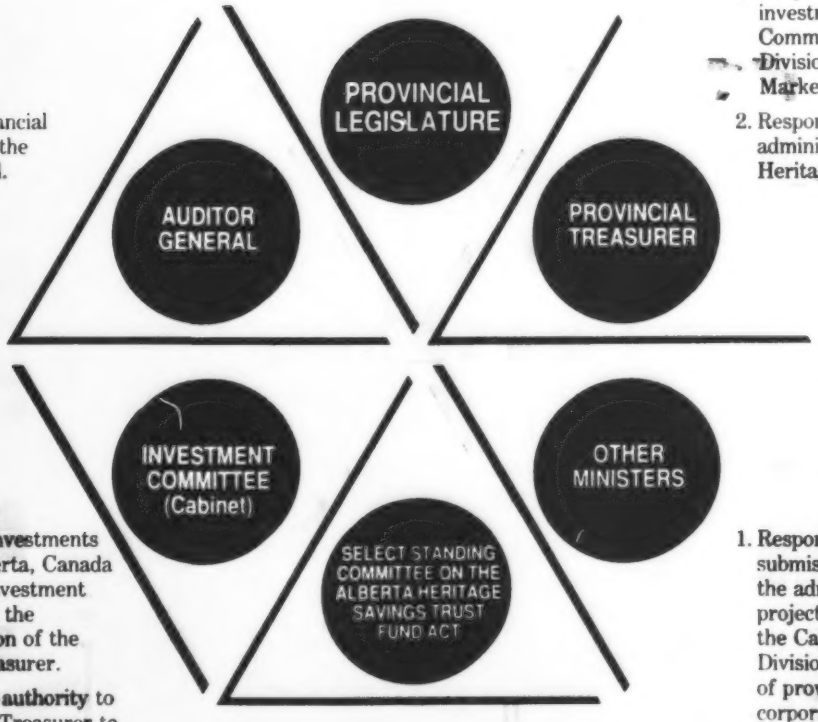
Investment proposals under the Alberta, Energy and Capital Projects Divisions are typically recommended by the appropriate government department through the responsible minister.

Investment and Review Process

1. Establishes overall legislative framework for the Fund and its operations.
2. Approves the Special Appropriation Act to transfer resource revenue to the Heritage Fund.
3. Votes on the amounts to be invested under the Capital Projects Division.
4. Approves maximum investment in each provincial Crown corporation under the Alberta Investment Division.
5. Votes on operating grants from the General Revenue Fund to Alberta Mortgage and Housing Corporation, Alberta Agricultural Development Corporation and Alberta Opportunity Company.

1. Responsible for day to day investments under the Commercial Investment Division and Cash and Marketable Securities.
2. Responsible for overall administration of the Heritage Fund.

1. Audits the financial statements of the Heritage Fund.



1. Approves all investments under the Alberta, Canada and Energy Investment Divisions upon the recommendation of the Provincial Treasurer.
2. Has delegated authority to the Provincial Treasurer to make investments under the Commercial Investment Division within guidelines it has approved.

1. Reviews Annual Report and makes recommendations with respect to existing and potential investments.

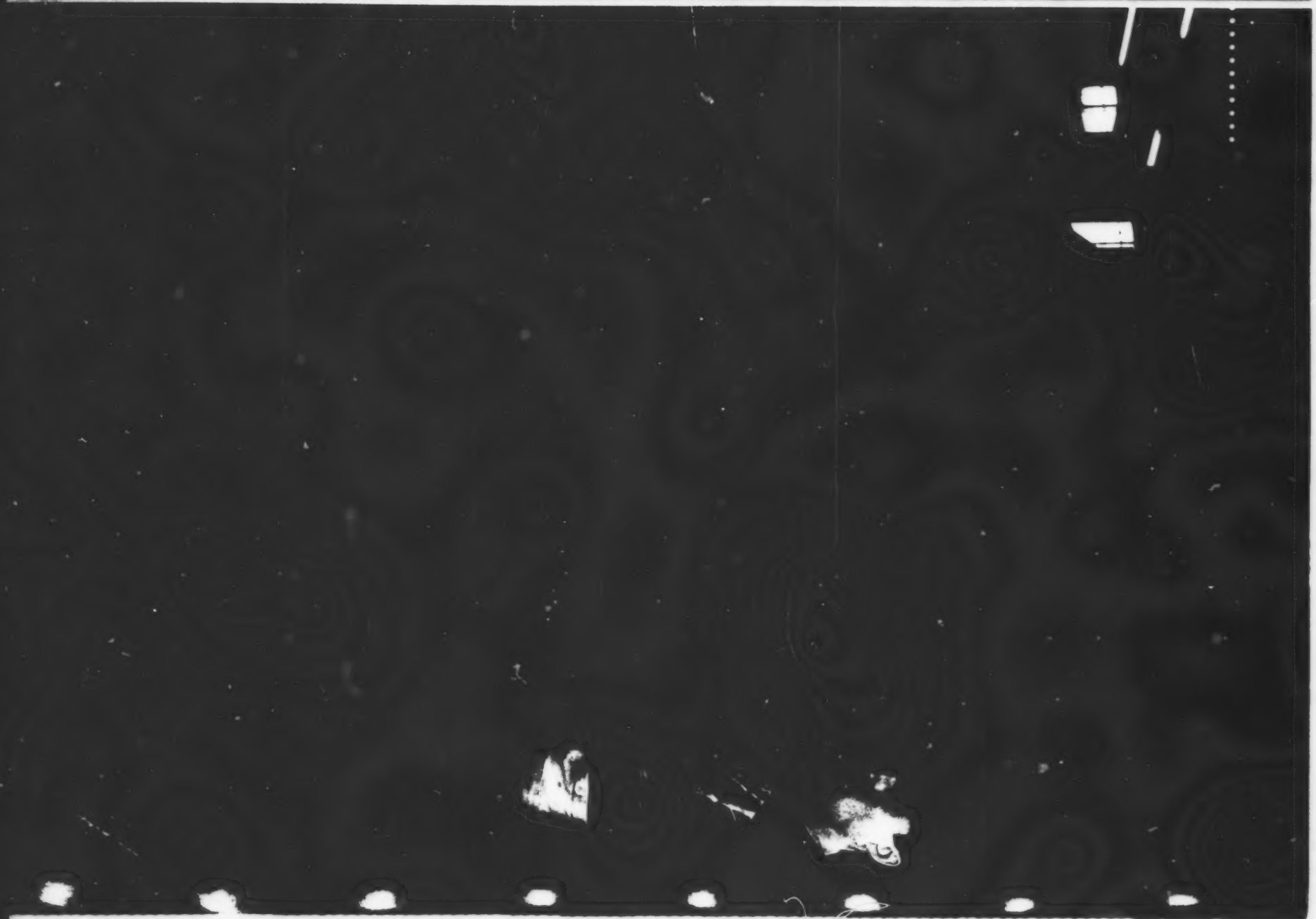
1. Responsible for the submission of budgets and the administration of projects funded through the Capital Projects Division, the administration of provincial Crown corporations financed under the Alberta Investment Division and of certain other investments.

The Heritage Fund's Investment Divisions

The Heritage Fund consists of five Investment Divisions and a portfolio of marketable securities. The following chart describes the different types of investments permitted for each Division.

Division	What the Investments Must Do	Investments Permitted
Alberta Investment Division	Strengthen or diversify the economy of Alberta. Yield a reasonable return or profit.	Debt or equity. No limitation on the size of the Division. Current investments include debentures of provincial Crown corporations, corporate debentures, and equity holdings.
Canada Investment Division	Yield a reasonable return or profit.	Loans to other provincial governments or their agencies. The Division is limited to 20 per cent of the Fund's assets including deemed assets.* Lending activity was suspended in March, 1982.
Commercial Investment Division	Yield a commercial return or profit.	A wide range of securities is permitted. Current investments are primarily common shares. Guidelines limit investment in common shares of any one Canadian corporation to no more than five per cent of the shares outstanding. Investments are managed on a passive basis. Since 1984-85, the Investment Committee has allowed its original $200 million limit on the Division to increase quarterly by an amount equivalent to the net investment income earned by the Division.
Energy Investment Division	Facilitate the development, processing or transportation of energy resources within Canada. Yield a reasonable return or profit.	Debt or equity. No limitation on the size of the Division.
Capital Projects Division	Provide long-term economic or social benefits to the people of Alberta. Projects may not necessarily by their nature yield a return.	Current investments include capital projects, agricultural and oil sands research, and endowment funds for medical research and scholarships. In July 1988, the Legislature approved an increase in the limit on this Division from 20 per cent to 25 per cent of the Fund's assets including deemed assets.*
Cash and Marketable Securities	Invest funds not immediately required for other Divisions. Yield a market return.	Short-term money market securities, marketable bonds, and deposits.

* Non-recoverable investments under the Capital Projects Division are classified as deemed assets of the Heritage Fund and are not included in its financial assets.



Alberta Investment Division

Alberta Government Telephones Commission (AGT)

AGT is a provincial Crown corporation that provides local and long distance communications, fully integrated and customized business systems, terminal equipment, and mobile communications for Albertans. Through its subsidiaries and joint venture partners, AGT is able to market its telecommunications expertise and products around the globe. AGT is helping Alberta to be at the cutting edge of technology and competitiveness.

As it has done since 1983, AGT financed its activities by borrowing in the Canadian public market during 1988-89.

Investment at March 31, 1989: $1,099 million

Alberta Municipal Financing Corporation

Alberta Municipal Financing Corporation assists Alberta's municipalities, school systems and hospital districts to obtain long-term financing at the lowest possible cost through access to capital markets which would not be available to them on an independent basis.

During the period 1976 to 1982, the Corporation financed its lending activity to municipal jurisdictions by borrowing over $1.5 billion from the Heritage Fund. Since 1983, the Corporation has met its financing requirements by borrowing in the Canadian public market, from the Canada Pension Plan Investment Fund and from internal sources.

Investment at March 31, 1989: $780 million

Alberta Opportunity Company

Alberta Opportunity Company provides loans, loan guarantees, financial guidance and management assistance to small Alberta businesses. The Company is making a major effort to meet the needs of Alberta's entrepreneurs especially those in smaller and rural centres. The Company has introduced Venture and Seed Funding programs to make equity investments in developing businesses. The Seed Funding program will provide innovative financing for activities such as market research, business planning and prototype development. This new initiative is designed to promote the diversification of Alberta's economy in tourism, manufacturing, high technology, and forest product businesses. The Company's Venture and Seed Funding programs are being financed by repayable advances from the General Revenue Fund.

In 1988-89, the Company made 326 loans and 13 investments under both the Loans and Venture Funding programs, for total direct funding activity of $34 million. As well, during this period, eight guarantee commitments were made.

Investment in 1988-89: $85 million

Investment at March 31, 1989: $164 million

Millar Western Pulp Ltd.

Millar Western Industries Ltd., is an Alberta-based company with major interests in lumber, construction and chemicals for the pulp industry. With a loan of $120 million from the Heritage Fund, the company built, through a wholly-owned subsidiary, the world's largest and most technologically advanced bleached chemithermo-mechanical pulp (CTMP) mill at Whitecourt, Alberta. The $200 million mill commenced operations in the fall of 1988 and is now fully operational with annual capacity of 210 000 tonnes of custom-made hardwood and softwood bleached pulp.

Investment in 1988-89: $69 million

Investment at March 31, 1989: $120 million

By providing financing to small Alberta businesses, such as a wood preserving company (left) and an amusement park, the Alberta Opportunity Company helps to strengthen and diversify the economy of Alberta.

Alberta Agricultural Development Corporation

The Corporation provides loans, loan guarantees and financial counselling to farmers and agribusinesses in order to foster a sustainable, profitable agrifood sector in Alberta. Programs and services are designed to: assist family-owned farm businesses develop as profitable, self-supporting enterprises; promote value-added processing, the farm service sector and other diversification opportunities; and improve the long-term health of the Alberta agricultural service sector.

Programs include such features as interest incentives for eligible beginning farmers. In April, 1988, the Indexed Deferral Plan was announced which is designed to enhance borrowers' cash flow in years when commodity prices are below the 10-year average, by allowing an interest-free deferral on a portion of normal loan payments.

In 1988-89, the Corporation made 743 loans under its direct loan programs, totalling $70.7 million and provided 6,220 loan guarantees totalling $87.9 million. These loans assisted beginning farmers entering into agriculture and helped established farmers expand. Financing was also provided to assist in the establishment and expansion of food processing, agribusiness and the farm service sector in Alberta, contributing to diversification and expansion of the economic base of rural centres.

Investment in 1988-89: $47 million

Investment at March 31, 1989: $1,033 million

Alberta Agricultural Development Corporation fosters a sustainable and profitable agrifood sector in Alberta by providing financial assistance to agribusinesses, such as this sunflower seed processor at Bow Island.

Syncrude

During the fiscal year 1988-89, the Syncrude Project near Fort McMurray produced 8.6 million cubic metres (54.4 million barrels) of synthetic crude oil, up 0.7 million cubic metres (4.4 million barrels) from the previous year. The increased production was due to the start-up of the $685 million Capacity Addition Project in mid-1988 which is expected to increase production by 1.1 million cubic metres (6.8 million barrels) per year.

As a result of prices 20 per cent lower than in 1987-88 (averaging slightly over Canadian $18), a coker shut-down in February and March, and slightly higher production costs due to Capacity Addition Project start-up costs, Alberta's 16.74 per cent participation in the Project registered a loss of $3.1 million for the year compared with a net profit of $44 million for the previous year.

During the year, engineering studies on a major $4 billion expansion of Syncrude were completed.

Investment (net) in 1988-89: $3 million

Investment at March 31, 1989: $512 million

Alberta Mortgage and Housing Corporation

Heritage Fund financing enabled Alberta Mortgage and Housing Corporation (AMHC) in the early 1980s to meet the pressing housing and related infrastructure needs of Albertans. The Alberta government's commitment to affordable housing today is reflected in the Corporation's ongoing administration of approximately 34,000 housing units for seniors and low-income families and a loan portfolio encompassing approximately 43,000 homeownership and rental housing units — almost all of which received capital financing from the Heritage Fund.

During 1988-89, the Corporation committed $9.3 million for the construction of rental housing including 135 senior citizen self-contained units. The Corporation provided rental accommodation based on income to another 548 households through a rent supplement program.

Corporate lending activities over the past year included $19.5 million to support the sale of 426 Corporation-owned properties under the Alberta Family Home Purchase Program and 12 units under the Modest Apartment Program. AMHC also provided $5 million in assisted mortgage financing and $2.2 million in capital financing to non-profit organizations to develop and operate special purpose housing projects. Twelve projects containing 155 housing units were allocated for the homeless, abused children, adults with severe addictions, the mentally ill and the mentally and physically disabled. An additional $14.1 million in mortgage financing was provided for 206 rural housing units for low-income families in smaller communities under the Rural and Native Housing Program. Another 1,300 families and individuals were assisted to obtain mortgage financing through the Mobile Home Loan Insurance Program.

Investment in 1988-89: $76 million

Investment at March 31, 1989: $3,134 million

Alberta Energy Company Ltd. (AEC)

AEC was established to encourage Albertans and other Canadians to participate in the development of energy and other natural resources. The majority of AEC's 45,000 shareholders are Albertans. The Company's activities include oil and gas exploration and development, investments in Syncrude, pipelines, forest products, an electric utility, a natural gas liquids extraction plant, a coal mine and a nitrogen fertilizer plant.

During 1988, AEC completed the acquisition of Chieftain Development Company Ltd. resulting in a substantial expansion of AEC's natural gas and oil reserves. AEC now ranks among the top 10 oil and gas companies in Canada in terms of reserves, production levels and exploratory landholdings.

On April 12, 1988, AEC issued 4.5 million common shares for net proceeds of $78 million, to repay existing long-term debt and to add to working capital. The Heritage Fund purchased 1.7 million of the newly-issued common shares for $30 million and thus maintained its 35 per cent equity position in AEC. The dividend income received by the Heritage Fund amounted to $6.3 million for 1988-89.

Investment in 1988-89: $30 million

Investment at March 31, 1989 (at cost): $117 million

Prince Rupert Grain Terminal - Ridley Grain Ltd.

The Prince Rupert Grain Terminal is owned by Ridley Grain Ltd., a consortium of six major western Canadian grain handlers. The Heritage Fund's investment is in the form of first mortgage bonds. Financing was also provided for this project by members of the consortium and from the province's general revenues.

In its fourth year of operations, this highly automated grain terminal enjoyed another active year. Four million tonnes of grain, mainly wheat and some barley were handled. About 13 per cent of Canada's total grain exports and about 23 per cent of west coast grain exports are shipped through the modern grain terminal. Interest payments of $12.0 million were received by the Heritage Fund in 1988-89.

Investment at March 31, 1989: $134 million

Small Business Term Assistance Plan

The Small Business Term Assistance Plan was established in 1986 to make fixed rate nine per cent financing available to Alberta small businesses for a maximum term of 10 years. Loans were available for up to $150,000 per small business for refinancing existing debt, making new purchases and extending lines of credit. The province maintains deposits with participating financial institutions equal to the amount of program loans they have outstanding.

Investment at March 31, 1989: $150 million

NOVA Corporation of Alberta Ltd. (NOVA)

NOVA is a major Alberta-based energy company operating internationally with assets of $8.2 billion and 13,000 employees worldwide. NOVA's businesses include petrochemicals, pipelines and gas marketing, petroleum, and related engineering and manufacturing.

In January, 1988, the Heritage Fund invested $150 million in adjustable rate convertible subordinated debentures of NOVA. The proceeds were used to assist NOVA in funding its 1988 capital budget which included investments of $250 million in the Alberta gas pipeline sector and about $70 million in the petrochemical business in Alberta.

Investment income received by the Heritage Fund amounted to $9.3 million for 1988-89.

In September, 1988, NOVA completed the acquisition of Polysar Energy and Chemical Corporation. This acquisition broadens and expands NOVA's petrochemical business into a world-class competitive presence. NOVA now ranks among the top petrochemical firms in North America and in the world.

Investment at March 31, 1989: $150 million

NOVA's petrochemical business is a world-class competitive presence and NOVA ranks among the top petrochemical firms in North America.

Lloydminster Bi-provincial Upgrader

The Lloydminster Bi-provincial Upgrader is a joint venture project by the governments of Alberta, Saskatchewan and Canada, and Husky Oil Ltd. The Upgrader will have the capacity to produce 46,000 barrels of crude oil per day with feedstock coming from heavy oil and bitumen reserves in Alberta and Saskatchewan. The Upgrader project will create an estimated 5,800 person-years of employment during its construction phase and another 1,800 permanent jobs in various sectors upon completion. Construction of the $1.27 billion Upgrader commenced in the fall of 1988 and is expected to be completed in December, 1992. Alberta will invest $305 million through the Heritage Fund as a 24 per cent participating interest. During 1988-89, the Heritage Fund invested $2.4 million in the Upgrader.

Investment in 1988-89: $2 million

Investment at March 31, 1989: $2 million

Canadian Western Bank

The Canadian Western Bank was formed on April 29, 1988, with the amalgamation of the Bank of Alberta with Western and Pacific Bank of Canada. The Canadian Western Bank is a western-based financial institution with its corporate office in Edmonton and branches in Alberta and British Columbia. The Heritage Fund's investment in the Canadian Western Bank is in the form of common shares.

Investment at March 31, 1989: $2 million

Capital Projects Division

Vencap Equities Alberta Ltd.

Vencap was launched in 1983 with a $44 million public share and convertible debenture issue and a $200 million participating loan from the Heritage Fund. Vencap is Canada's largest publicly-owned venture capital company and is listed on the Alberta Stock Exchange. The company's investment focus is on companies whose business operations will significantly benefit Alberta's economic development and diversification through their growth and development. By March 31, 1989, Vencap had invested and committed almost $114 million in 32 companies since its establishment in 1983. In 1988-89, over $32 million of new investments and commitments were made in 14 separate companies, in fields such as parallel processing supercomputers, agricultural biotechnology, oil field equipment, custom canning and bottling of beverages, specialty metals and fertilizer, medical devices, and agricultural consulting.

The return on the Heritage Fund's $200 million loan is in the form of a percentage participation in Vencap's pre-tax income and amounted to $10.9 million in 1988-89. To date, the Heritage Fund has received over $46 million on its investment since 1983.

Investment at March 31, 1989: $200 million

Canada Investment Division

Through the Canada Investment Division, the Heritage Fund has invested in debentures issued by the governments of six other Canadian provinces or their agencies from 1977 to 1982. Loans were made at market rates and interest rates on these debentures range from 9.5 per cent to 16.4 per cent. Lending under the Canada Investment Division has been suspended since March, 1982.

During 1988-89, interest on these loans made in previous years contributed $173 million toward the Fund's investment earnings. Scheduled principal repayments totalling $83 million were also received during 1988-89.

Investment at March 31, 1989: $1,388 million

Energy Investment Division

The only investment made under this Division was a $25 million Luscar Ltd. debenture to help fund the major expansion of the company's coal mining operations in Alberta in 1981. The company made the final payment on the loan in June 1988.

Investment at March 31, 1989: nil

Commercial Investment Division

The objective of the Commercial Investment Division is to earn a commercial rate of return in keeping with the Heritage Fund's savings objective. The Division's emphasis on equity investments helps diversify the Fund's overall portfolio. The equity portfolio represents a broad range of Canadian industrial sectors and public companies. Investments are managed on a passive basis and are limited to no more than five per cent of the shares outstanding of any one company.

The Division was started in the 1981-82 fiscal year with an allocation of $200 million. During the latter half of 1984-85, the Investment Committee decided to permit the $200 million limit on the Division to increase by the amount of net investment income earned by the Division.

The Division contributed $35 million in dividends, interest and realized capital gains to the Heritage Fund's investment income in 1988-89. At year end, the market value of the portfolio exceeded its cost by almost $200 million.

Investment (net) in 1988-89: $24 million

Investment at March 31, 1989: $287 million

Cash and Marketable Securities

Funds which are not immediately required for investment in any of the five Investment Divisions are invested in high quality debt securities and deposits. Holdings increased during the year from $2,798 million at March 31, 1988, to $2,841 million at March 31, 1989.

At March 31, 1989, the portfolio consisted of $2,762 million of short and medium term securities and $79 million in the province's Consolidated Cash Investment Trust Fund, or about 23 per cent of the Fund's financial assets. Of this amount, $339 million was used as interim financing for deposits with lenders under the Alberta Farm Credit Stability Program to facilitate the provision of fixed rate financing to Alberta farmers. An additional $50 million was used to provide interim financing for the province's General Revenue Fund.

The realized rate of return on the Cash and Marketable Securities portfolio was 10.3 per cent for 1988-89, up from 8.7 per cent for the previous year, reflecting significantly higher short-term interest rates over the previous years. To capture the prevailing high yields, the portfolio's average term to maturity was lengthened to 139 days at March 31, 1989, from 55 days a year earlier.

Cash and Marketable Securities contributed $272 million, or 22 per cent of the Fund's investment income in 1988-89.

Investment (net) in 1988-89: $43 million

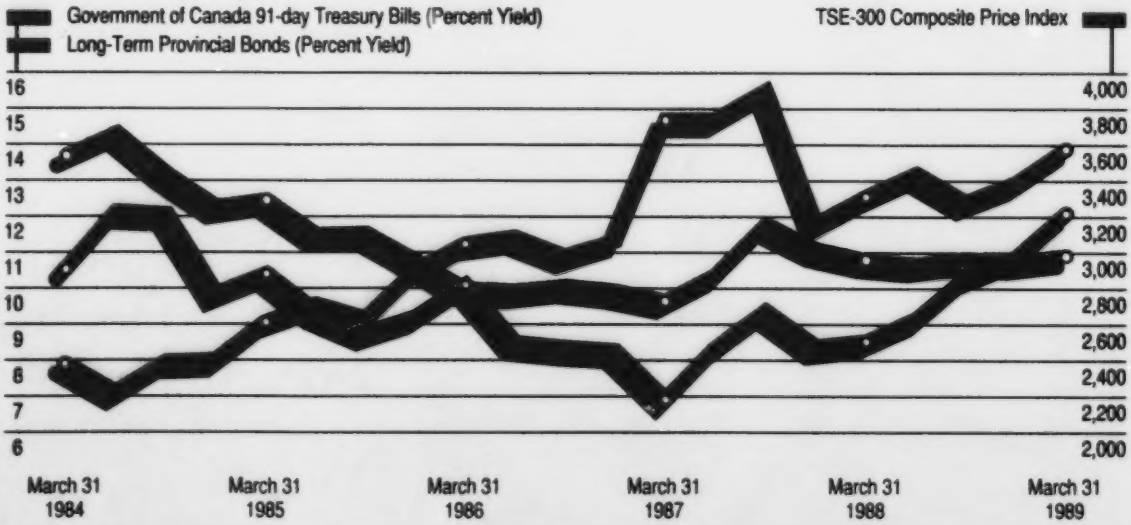
Investment at March 31, 1989: $2,841 million

Rates of Return and Yields on Investments 1988-89

	Rate of Return on Amortized Cost (%)	Yield to Maturity on Amortized Cost of Fixed Income Securities (%)
Canada Investment Division	12.3	12.2
Alberta Investment Division	11.1	11.5
Commercial Investment Division	13.3[a]	10.9[b]
Cash and Marketable Securities	10.3	11.4
	11.1	11.4

[a] Does not include the unrealized appreciation in market value of shares.
[b] Money market securities only.

Trends in Yields on Canadian Securities



Canada Investment Division

Summary of Investment Transactions For the Year Ended March 31, 1989
(millions of dollars)

	Cost March 31, 1988	Purchases	Amortization	Repayments and Redemptions	Cost March 31, 1989	Par Value March 31, 1989
Province of Manitoba	184.4	–	0.3	75.0	109.7	110.0
Province of New Brunswick	170.6	–	0.2	–	170.8	172.0
New Brunswick Electric Power Commission	133.8	–	0.1	–	133.9	135.0
	304.4	–	0.3	–	304.7	307.0
Province of Newfoundland	49.8	–	–	–	49.8	50.0
Newfoundland and Labrador Hydro	148.5	–	0.1	–	148.6	150.0
Newfoundland Municipal Financing Corporation	69.2	–	0.1	1.7	67.6	68.1
	267.5	–	0.2	1.7	266.0	268.1
Province of Nova Scotia	207.6	–	0.2	–	207.8	210.0
Nova Scotia Municipal Finance Corporation	43.5	–	–	4.6	38.9	39.1
Nova Scotia Power Corporation	99.1	–	–	–	99.1	100.0
	350.2	–	0.2	4.6	345.8	349.1
Province of Prince Edward Island	60.2	–	–	2.0	58.2	59.0
Hydro-Quebec	303.0	–	0.5	–	303.5	310.0
Total	**1,469.7**	**–**	**1.5**	**83.3**	**1,387.9**	**1,403.2**

Commercial Investment Division

Summary of Investment Transactions For the Year Ended March 31, 1989
(millions of dollars)

	Cost March 31, 1988	Purchases	Amortization	Repayments and Redemptions	Cost March 31, 1989	Market Value March 31, 1989
Money market securities	35.8	111.5	4.0	104.5	46.8	46.8
Common and preferred shares	227.1	23.4	–	10.6	239.9	439.8
Total	**262.9**	**134.9**	**4.0**	**115.1**	**286.7**	**486.6**

Alberta Investment Division

Summary of Investment Transactions For the Year Ended March 31, 1989
(millions of dollars)

	Cost March 31, 1988	Purchases	Amortization	Disposals, Repayments and Redemptions	Cost March 31, 1989
Investments in Province of Alberta (Small Business Term Assistance Fund) **Promissory Notes**	200.0	—	—	50.0	150.0
Investments in Provincial Corporations:					
Alberta Agricultural Development Corporation Debentures					
Investments at March 31, 1988	1,016.9		—	30.5	986.4
Investments made during 1988-89:					
10.83% March 1, 2009		47.0	—	—	47.0
	1,016.9	47.0	—	30.5	1,033.4
Alberta Government Telephones Commission Debentures					
Investments	1,098.6	—	0.2	—	1,098.8
Alberta Mortgage and Housing Corporation Debentures					
Investments at March 31, 1988	3,278.7		—	220.7	3,058.0
Investments made during 1988-89:					
10.87% July 15, 2008		20.0	—	—	20.0
10.52% November 15, 2008		20.0	—	—	20.0
10.76% December 1, 2008		15.0	—	—	15.0
10.92% March 15, 2009		10.0	—	—	10.0
10.91% October 3, 2013		4.0	—	—	4.0
10.79% January 3, 2014		3.0	—	—	3.0
11.03% March 31, 2014		4.0	—	—	4.0
	3,278.7	76.0	—	220.7	3,134.0
Alberta Municipal Financing Corporation Debentures					
Investments	825.0	—	—	45.0	780.0
Alberta Opportunity Company Debentures					
Investments at March 31, 1988	164.8		—	86.0	78.8
Investments made during 1988-89:					
10.47% January 31, 1994		5.0	—	—	5.0
11.00% February 28, 1994		5.0	—	—	5.0
11.28% March 31, 1997		75.0	—	—	75.0
	164.8	85.0	—	86.0	163.8
Total Provincial Corporations	**6,384.0**	**208.0**	**0.2**	**382.2**	**6,210.0**

Alberta Investment Division

continued

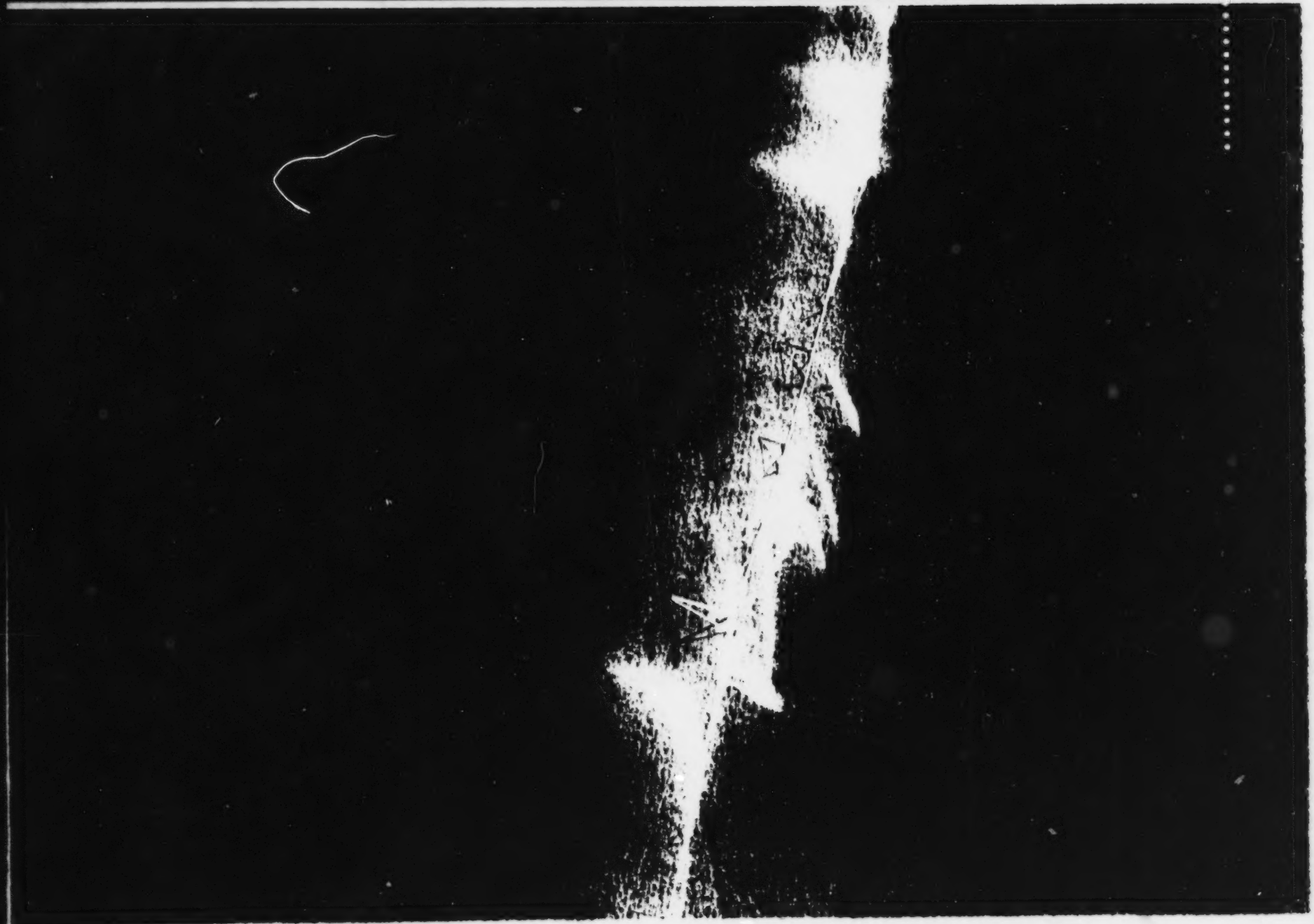
	Cost March 31, 1988	Purchases	Amortization	Disposals, Repayments and Redemptions	Cost March 31, 1989
Other Alberta Investment Division Investments:					
Bralorne Resources Ltd. debenture 12.875% August 15, 1995	3.5	–	–	3.5	–
Millar Western Pulp Ltd. Participating debenture, July 31, 2004	50.7	69.3	–	–	120.0
NOVA Corporation of Alberta Ltd. Adjustable rate convertible subordinate debentures, February 15, 2008	150.0	–	–	–	150.0
Ridley Grain Ltd. participating first mortgage bonds, 11.00% July 31, 2015	134.0	–	–	–	134.0
Alberta Energy Company Ltd. common shares	87.3	30.0	–	–	117.3
Canadian Western Bank common shares	1.6	–	–	–	1.6
Participation in Lloydminster Bi-provincial Upgrader Project	–	2.4	–	–	2.4
Participation in Syncrude Project	508.9	172.9	–	169.8	512.0
Total	**7,520.0**	**482.6**	**0.2**	**605.5**	**7,397.3**

Energy Investment Division

Summary of Investment Transactions For the Year Ended March 31, 1989
(millions of dollars)

	Cost March 31, 1988	Purchases	Disposals, Repayments and Redemptions	Cost March 31, 1989
Luscar Ltd. debenture 13.875% December 2, 1989	1.3	–	1.3	–

Deemed Assets



Agriculture and Rural Development

Farming For The Future

Since its implementation in 1979, the Farming For The Future research support program has financially assisted more than 1,150 research and on-farm demonstration projects in order to improve net farm income in Alberta and to enhance the long-term viability of the province's agricultural industry. To be successful in today's highly competitive markets, Alberta's agricultural sector requires access to a constant supply of technological innovations. Well directed agricultural research — like that being supported by Farming For The Future — can produce these innovations. Prominent successes include new crop varieties, new livestock vaccines, new weed and pest controls, an improved nitrogen fixation process, and new food processing techniques.

Investment in 1988-89: $5 million

Investment at March 31, 1989: $49 million

Rail Hopper Cars

As part of its ongoing commitment to our vital agricultural sector, the government acquired 1,000 hopper cars in 1980-82 to help increase the grain-carrying capacity of the railway system. In the 1987-88 crop year (August 1 to July 31), 15,774 carloads of grain were moved in the Heritage Fund hopper cars. The Alberta cars made up approximately 3.5 per cent of the railway grain fleet, and moved 1.3 million tonnes of grain representing 4.2 per cent of the total grain movements to export terminals.

Investment at March 31, 1989: $54 million

Grazing Reserves Development

In support of the agricultural economy in the province's grey-wooded soil areas, the project provided the development of an additional 12 public grazing reserves and the Cooking Lake-Blackfoot Grazing, Wildlife and Provincial Recreational area. These reserves promote the diversification of the agricultural economy by enabling farmers to graze their stock on public land while using privately-owned land for hay, cereal and oilseed crop production. All development work was carried out by private contractors and involved the clearing of brush land and the establishment of tame forages. The Grazing Reserves Development program began in 1977 and concluded on March 31, 1988.

Investment at March 31, 1989: $39 million

Irrigation Rehabilitation and Expansion

The efficient and effective management of Alberta's water resources is advanced through the combined efforts of this project and the Irrigation Headworks and Main Irrigation Systems Improvement project. Assistance is provided to 13 Irrigation Districts to plan, rehabilitate and expand Alberta's irrigation distribution network.

During 1988-89, 42 kilometres of canal were lined, 56 kilometres of pipelines and 45 kilometres of subsurface drains were installed, and 49 kilometres of earth canals were rehabilitated. A total of 1,176,000 acres (476 000 hectares) of irrigated lands were serviced by the Irrigation Districts.

Investment in 1988-89: $25 million

Investment at March 31, 1989: $262 million

Individual Line Service

Approximately 25,000 rural telephone party subscribers were converted to individual line service in 1988-89. This brings the total to about 34,000 subscribers, or 32 per cent of over 100,000 party line subscribers in the province. Through direct assistance to Alberta Government Telephones and 'edmonton telephones' and rebates to individual subscribers, the eventual goal is to convert all of the over 100,000 party lines in the province to individual line service by 1991-92, thereby providing all Albertans with the highest quality of telecommunications services.

Investment in 1988-89: $57 million

Investment at March 31, 1989: $105 million

Through the Irrigation Rehabilitation and Expansion project, assistance is provided to plan, rehabilitate and expand Alberta's irrigation distribution network.

Research and Technology

Applied Cancer Research

Through its support to both clinical and pure research, this grant program is helping to make Alberta a centre of excellence in cancer research. The projects funded through the program provide benefits which extend beyond the laboratory and clinical trials to bedside patient care. Studies of radiopharmaceuticals have gained international attention. These new compounds will have direct clinical relevance to patients in terms of earlier diagnosis and assessment of prognosis. Clinical trials in Calgary and Edmonton involving pancreatic and brain tumors have led to improved treatment. These are among the 28 projects funded in 1988-89.

Investment in 1988-89: $2 million

Investment at March 31, 1989: $38 million

Applied Heart Disease Research

Funding was provided over a six-year period ending March 31, 1982, to assist in the development of cardiac care programs. Proven projects such as the pediatric cardiology program at the University of Alberta Hospitals and the cardiac rehabilitation programs at the Calgary General Hospital and Royal Alexandra Hospital in Edmonton continue to be funded through the government's General Revenue Fund.

Investment at March 31, 1989: $29 million

Alberta Oil Sands Technology and Research Authority (AOSTRA)

In support of the province's hydrocarbon energy sector, the Authority promotes research and development into the technological methods required for the economic recovery and upgrading of crude bitumen, heavy oil and other oil sands products and the enhancement of conventional crude oil recovery methods. Since the Authority's establishment, development of environmentally sensitive technology has been fundamental to its role. The Authority's involvement in technology development ranges from fundamental, academic and institutional research to the support of large-scale field pilots and commercial demonstration units in co-operation with industry and both federal and provincial government bodies.

Investment in 1988-89: $10 million

Investment at March 31, 1989: $414 million

Clinical Research Building

This project, which is located on the grounds of the University of Alberta, is linked to the Heritage Medical Research facility and consists of five bays of laboratory modules and offices for medical staff and researchers.

When completed, the Clinical Research Building will provide basic research space for various medical fields including cardiology, immunology, pathology, dermatology, neuro-surgery, cytogenetics, obstetrics, hematology, rheumatology, bio-medical design, plastic surgery and neurology.

Investment in 1988-89: $14 million

Investment at March 31, 1989: $14 million

Occupational Health and Safety Research and Education

Health and safety problems in the workplace are addressed through education, research, and conference projects. Grants enable high hazard industries like forestry, to develop innovative training materials for loggers and fallers, which are designed to promote safe work practices and prevent injuries and fatalities. Pioneering research is being conducted into the dangers of hydrogen sulfide gas, and the disposal and clean-up of common, yet hazardous, laboratory chemicals. Business and enginnering university students are studying the latest in the occupational health and safety field in a new safety and loss management course. Red Deer's community initiative to reduce accidents, the Safe Community Project, has generated new preventive approaches involving employers, schools, and community groups. One hundred seventy grants have been awarded by the end of 1988-89.

Investment in 1988-89: $1 million

Investment at March 31, 1989: $7 million

The Clinical Research Building at the University of Alberta provides basic research facilities for various medical fields, including this blood separation process which furthers research into the field of hematology.

Alberta Heritage Foundation for Medical Research

The Alberta Heritage Foundation for Medical Research was established in 1979 to encourage medical research in Alberta. Originally supported by a $300 million endowment fund, the Foundation devotes millions of dollars annually from investment earnings to an exceptional awards and grants program that has established a critical mass of career scientists in Alberta.

In order to accommodate the work of the multi-disciplinary medical research groups in Alberta, the Foundation has investments in two major new laboratory complexes — the Heritage Medical Research Buildings in Edmonton and Calgary. In addition, the Foundation funds an aggressive technology transfer program which is beginning to see the work of Alberta's fast-growing medical research community translated into successful commercial ventures.

Investment at March 31, 1989: $300 million

Economic Diversification

Airport Terminal Buildings

During the period 1979-80 through 1983-84, the Heritage Fund provided funding to construct or upgrade airport terminals in 18 communities around the province. These terminals helped improve accessibility to these centres and they continue to play an important role in serving the economic and other needs of these communities.

Investment at March 31, 1989: $16 million

Electronics Test Centre

The Alberta Research Council's Electronics Test Centre is the only facility in western Canada providing testing and certification for electronic products, as well as product evaluation and research support for manufacturers. The Centre can test and evaluate any product including those used in telecommunications, medical electronics, data processing, office automation and process instrumentation. It provides complete "one-stop" testing and engineering services, accredited by national and international agencies. This world-class facility, which opened in 1985 and became fully operational in 1986-87, is a key component of the province's network of research and applied science centres, helping to keep Alberta's electronics industry at the forefront of technology.

Investment at March 31, 1989: $6 million

Food Processing Development Centre

The Leduc facility is a fully equipped pilot plant production and product development laboratory designed to strengthen and expand the capability of Alberta's food processors to meet the opportunities of domestic and global markets for value-added food products. Processors can, through application of new technology, develop new or improved products or processes.

Product development laboratories in the Centre contain advanced equipment and facilities for product formulation, prototype design, testing, packaging, test kitchen demonstration and taste panel presentation. Pilot plant equipment can provide simulation of industrial production to assess product or process performance.

Technical and information services are available at the Centre to assist Alberta processors in state-of-the-art technology transfer, and in-plant consultation.

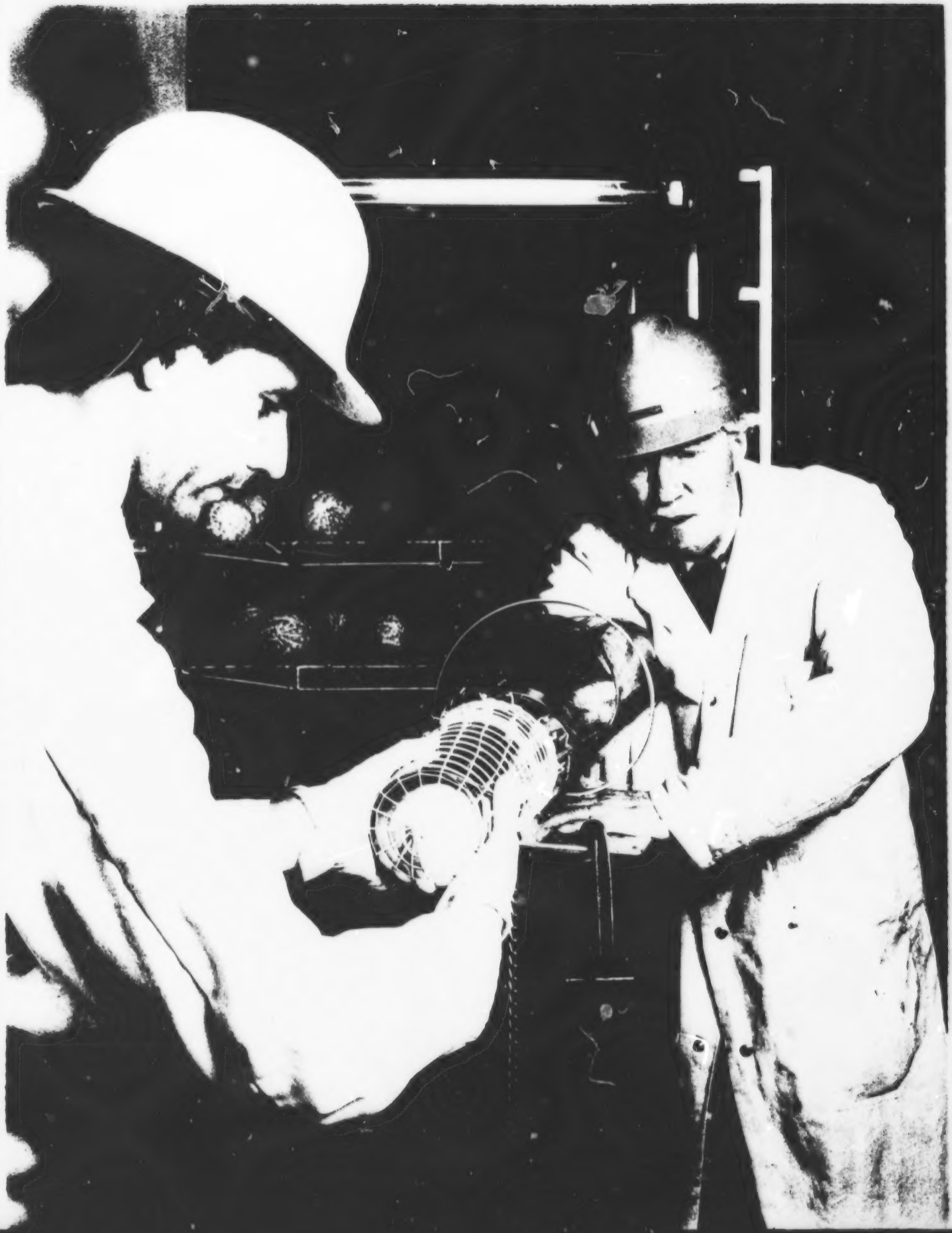
Investment at March 31, 1989: $9 million

Microchip Design and Fabrication Facilities

The Alberta Microelectronic Centre helps companies understand and use microelectronics technology applications in their businesses. Services include feasibility studies, microelectronic prototype development and microchip design and fabrication. The Centre's Edmonton Fabrication Facility specializes in the manufacture of Application Specific Integrated Circuits (ASICs). This facility is complemented by the Centre's Design and Engineering facility in Calgary. The Centre has produced ASIC applications for companies in various industries, including a downhole well instrument and a font cartridge for a laser printer. The Centre is also an integral part of Alberta's advanced technology infrastructure developed with the support of universities, industry and government to provide a technological edge for Alberta industry.

Investment at March 31, 1989: $8 million

The Leduc Food Processing Development Centre has advanced equipment and facilities for all aspects of product development; here alternative methods of packaging ham are being tested.



This fully functional Red Deer park was developed on the site of an abandoned gravel pit reclaimed under the Land Reclamation project.

Environment

Irrigation Headworks and Main Irrigation Systems Improvement

As an integral part of the province's broad water management policy, this program supports the rehabilitation, upgrading or replacement of existing irrigation headworks and delivery systems and the development of new water storage and delivery systems.

In 1988-89, construction work on the Eastern Irrigation District main canal and the United District headworks rehabilitation programs was initiated. The construction of Pine Pound Coulee Syphon on the Waterton-St. Mary headworks system was completed. Construction work continued on the St. Mary River Irrigation District main canal, where approximately 89 per cent of its total length of 283 kilometres has been completed. The Lethbridge Northern Irrigation District headworks rehabilitation and the Forty Mile Coulee Reservoir projects were completed in 1987-88. These projects, along with others previously completed under the program, will provide an assured water supply for irrigation and for a wide range of multi-purpose uses such as domestic water supplies for area residents, municipal and industrial water needs, water-based recreation facilities and wildlife enhancement.

Investment in 1988-89: $34 million

Investment at March 31, 1989: $397 million

Land Reclamation

The principal objective of this project is to reclaim land not governed at the time of disturbance by the Land Surface Conservation and Reclamation Act. These disturbances are the result of man-made activities. Work under this project has focused primarily on restoring abandoned garbage dumps, sewage lagoons, gravel pits and mine sites throughout Alberta. Since the project's inception, 1,150 sites have been or are in the process of being reclaimed. Most municipalities throughout the province have participated in the project, with a number having utilized the program for more than one project. As well, funds continue to be committed in support of research projects concerned with improving land reclamation methods.

Investment in 1988-89: $2 million

Investment at March 31, 1989: $33 million

Paddle River Basin Development

The control of damage caused by the flooding of the Paddle River and the provision of an assured water supply for the area are vital and integral components of Alberta's water management program. These needs were met through the completion of this project in 1986-87 whereby a dam 30 metres (98 feet) high was constructed on the river's upper reaches. Related works include dykes, flood-free road systems and channel improvements in the flood plain area. The resulting reservoir will help foster the future development of recreational facilities.

Investment at March 31, 1989: $42 million

Lesser Slave Lake Outlet

The perennial problem of flooding in the communities and agricultural lands surrounding Lesser Slave lake was alleviated in 1983-84 through completion of construction of a weir and outlet channels to help stabilize lake levels.

Investment at March 31, 1989: $3 million

Maintaining Our Forests

In support of the province's environment and the many users of the forest resource base, this project assisted with the re-establishment and improvement of coniferous forests damaged by fire and industrial expansion. The program concluded in 1986-87. Over its eight year history, approximately 45 000 hectares (111,000 acres) were planted with seedlings. In addition, a tree improvement program was initiated in co-operation with the forest industry, under which genetically superior trees were selected and grown to provide seed for reforestation programs.

Investment at March 31, 1989: $25 million

Alberta Reforestation Nursery

This project was undertaken to provide a secure source of conifer seedlings for both government and industry reforestation projects. The Pine Ridge Forest Nursery has shipped approximately 211 million seedlings, or an average of 19 million per year. The Nursery became fully operational in 1980-81. Capital funding for the design and construction of the Nursery was completed in 1984-85.

Investment at March 31, 1989: $15 million

Quality of Life

Recreation

Kananaskis Country Recreation Development

The Heritage Fund investment over the past decade in Kananaskis Country has provided a major legacy of recreational facilities and amenities to be enjoyed by Albertans and visitors.

Facilities enjoyed by millions of visitors during the year, include over 3,000 automobile accessible campsites in 30 campgrounds, including the Mount Kidd Recreational Vehicle Park, 17 backcountry and primitive campgrounds, 13 group camps, 75 picnic areas throughout Kananaskis Country, and six amphitheatres in the major campgrounds.

There are now over 1 500 kilometres of trails of a variety for hiking, cross-country skiing, horseback riding, snowmobiling, biking, mountain biking, trail biking and fourwheel driving.

There are also 10 put-and-take fishing ponds, one of which, Mount Lorette Ponds, is wheelchair accessible with paved pathways, accessible bridges and picnic sites.

The Kananaskis Country Golf Course, built by the Heritage Fund and operated by a private sector company, is popular with both golfers and non-golfers alike. Since the course opened in 1983, over 300,000 rounds of golf have been played.

William Watson Lodge, a special facility in Peter Lougheed Provincial Park designed for disabled people and senior citizens of Alberta, has proven to be extremely popular.

Investment in 1988-89: $0.5 million

Investment at March 31, 1989: $225 million

Municipal Recreation/ Tourism Areas

Since 1986-87, the Municipal Recreation/Tourism Areas program has provided capital grants to rural communities for the development, upgrading and operation of outdoor recreation facilities. With the assistance of this program, rural communities have been able to improve local recreation opportunities and increase tourism.

A key factor in the success of the program has been the degree of community enthusiasm and initiative to develop local recreation and tourist attractions. Communities represented by organizations such as local service groups and civic officials, choose the site and develop the plans. Once the initial site has been agreed upon, Recreation and Parks' consultants are available to assist communities with planning and concept design of the area.

In 1988-89, 35 new sites received development funding and 15 additional sites were completed.

Investment in 1988-89: $2 million

Investment at March 31, 1989: $7 million

Fish Creek Provincial Park

Fish Creek Provincial Park, one of the first urban provincial parks in Canada, was completed in 1986-87. This 1 330 hectare (3,300 acre) park, located in south Calgary, includes facilities such as a visitor centre offering interpretive programs, an environmental education centre, the Sikome Lake recreation area which includes a 3.6 hectare (nine acre) swimming and skating lake, an equestrian centre, and a number of amphitheatres, picnic areas and historical sites.

Investment at March 31, 1989: $45 million

Capital City Recreation Park

This unique 1 200 hectare (3,000 acre) park, located in Edmonton and the neighboring County of Strathcona, joins 14 regional parks by cross-river bridges and 55 kilometres (34 miles) of bicycle and hiking paths. It provides a broad range of leisure opportunities such as a family recreation centre, picnic and nature areas, fountains and a fish pond. It also includes a ski lodge and eight science pavilions featuring science and technology displays and archaeological artifacts. Only the acquisition of land and rights of way to connect trail systems and to consolidate the park remain to complete the project.

Investment in 1988-89: $0.4 million

Investment at March 31, 1989: $43 million

Urban Parks

The Urban Parks program which was announced in 1979, provided capital funds until 1987 to five cities to buy land and to plan and develop urban park systems. As well as enhancing the outdoor recreational opportunities available to residents of these cities, these park systems help preserve the local natural environment. Parks in Lloydminster, Medicine Hat, Lethbridge, Red Deer and Grande Prairie will continue to be enjoyed by Albertans for many years to come.

Investment at March 31, 1989: $87 million

Health Care

Walter C. Mackenzie Health Sciences Centre

Located at the University of Alberta in Edmonton to service northern Alberta and the Northwest Territories, this ultra-modern health sciences centre integrates health care, teaching and research. Within the 167 000 square metre complex, are 843 acute care beds, 14 operating theatres and seven intensive care units. The facility is able to support such leading edge programs as heart/lung transplants. For outpatients requiring "same day" surgery or treatments, the Centre provides a 40-bed day ward, four operating rooms and an eight-bed recovery room. Over 5,000 professional, technical and research staff are employed at the Centre. While offering state-of-the-art technology and services, the Centre, through its unique architectural design, also provides an environment conducive to the emotional well-being of patients, visitors and staff.

Investment in 1988-89: $2 million

Investment at March 31, 1989: $390 million

The state-of-the-art Walter C. Mackenzie Health Sciences Centre is becoming renowned for its many innovative programs, including the heart transplant program.

Tom Baker Cancer Centre and Special Services Facility

Both facilities are located on the Foothills Medical Centre site in Calgary. The facilities were opened for patient care in the fall of 1981 and were completed in 1984. As an outpatient unit, the Tom Baker Centre provides diagnostic, chemotherapy, radiation therapy and psycho-social support services to cancer patients and their families. The technology, equipment and treatment available at the Centre provides advanced, quality care for southern Alberta.

The Special Services Facility houses the southern office of the Provincial Laboratory of Public Health, a hostel unit and day service unit, an auxiliary hospital and other services. Staff and services are also shared with other departments within the Foothills Medical Centre.

Investment at March 31, 1989: $93 million

Alberta Children's Provincial General Hospital

Located in Calgary and completed in 1984, this children's health centre focuses on the total health of its young patients. Based on the belief that children require special care to achieve their maximum potential, both basic and complex medical and surgical services are provided to inpatients. As well, outpatient services are provided through over 30 specialty clinics, a school for physically/developmentally disabled children and the Mobile Team Project, a program unique in North America that takes teams of therapists out of the hospital and into the community.

Investment at March 31, 1989: $40 million

Education

Heritage Learning Resources

The Alberta Heritage Learning Resources Project, which was launched during Alberta's 75th Anniversary year, was the largest educational publishing project ever undertaken by the provincial government. It provided an impetus for the publishing industry by drawing upon the creative and organizational talents of many individuals.

The $9 million project involved the development and publication of six sets of materials for use in Alberta schools, all of which emphasized the history and geography, and the social and natural environment of Canada, particularly western Canada.

These life-enriching resources have been very well received and are available in all Alberta schools, nursing homes and libraries.

Investment at March 31, 1989: $9 million

Library Development

This four-year project supported the significant upgrading and expansion of library collections in all 15 Alberta public colleges and universities. At the time the project was completed in 1982-83, more than 600,000 volumes of library books, periodicals and non-print resources had been acquired.

Investment at March 31, 1989: $9 million

Alberta Heritage Scholarship Fund

Since inception in 1981-82, this endowment fund's earnings have provided an annual budget of approximately $10 million to support a comprehensive range of 13 scholarships and awards. Most are used to further individual study at the post-secondary level. The Alberta Heritage Scholarship Fund has, to date, awarded over $68 million to more than 48,000 Albertans who have benefited from the assistance and who will help to make Alberta a better place to live in the future.

Investment at March 31, 1989: $100 million

Alberta Heritage Savings Trust Fund

A Ten Year Review: 1979-80 to 1988-89

(millions of dollars)

	1988-89	1987-88	1986-87	1985-86
Transfer of Non-Renewable Resource Revenue to the Heritage Fund	0	0	216	685
Net Income Earned on the Fund's Investments	1,252	1,353	1,445	1,667
Subtract				
Income Transferred to Budgetary Revenues	1,252	1,353	1,445	1,667
Expenditures on Non-income Earning Capital Projects Division Projects (Deemed Assets)	155	129	227	240
New Funds Available to the Heritage Fund for Income Earning Investments	(155)	(129)	(11)	445
Increase (Decrease) on Payables	5	(54)	40	(3)
Add				
Financial Assets of the Heritage Fund at the Beginning of the Year	12,562	12,745	12,716	12,274
Financial Assets of the Heritage Fund at the End of the Year	12,412	12,562	12,745	12,716
Consisting of				
Alberta Investment Divisions	7,397	7,520	7,847	8,177
Capital Projects Division[b]	200	200	200	200
Energy Investment Division	—	1	9	16
Canada Investment Division	1,388	1,470	1,857	1,864
Commercial Investment Division	287	263	233	217
Cash and Marketable Securities and Other Assets	3,140	3,108	2,599	2,242
Financial Assets	12,412	12,562	12,745	12,716
Rate of Return on Amortized Cost[c] (%)	11.1	11.4	12.0	14.3

[a] Net investment income before deducting administrative expenses. Pursuant to an amendment to the Heritage Fund Act, effective April 1, 1984, the transfer was changed to net income after deducting administrative expenses.

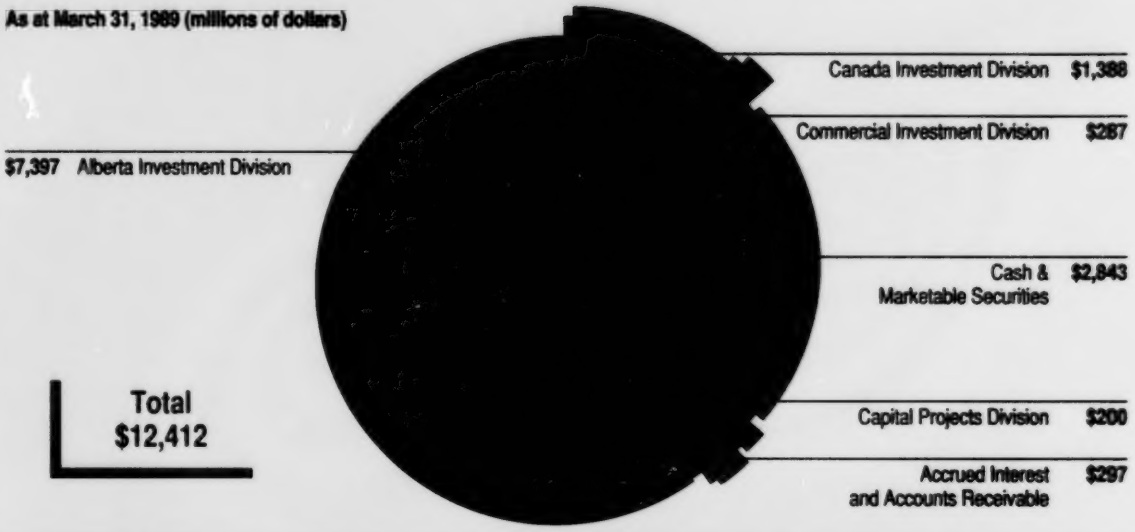
[b] Investment in Vencap Equities Alberta Ltd.

[c] Rate of return on the Fund's investments is calculated using the time weighted method.

1984-85	1983-84	1982-83	1981-82	1980-81	1979-80
737	719	1,370	1,434	1,444	1,332
1,575	1,467	1,482	1,007	724	343
1,575	1,469[a]	866[a]	—	—	—
228	330	296	349	227	478
509	387	1,690	2,092	1,941	1,197
(11)	(8)	7	(10)	(9)	39
11,776	11,397	9,700	7,618	5,686	4,450
12,274	11,776	11,397	9,700	7,618	5,686
8,151	8,079	8,158	6,335	4,524	3,140
200	200	—	—	—	—
24	25	25	25	25	—
1,870	1,896	1,903	1,909	1,492	929
201	199	199	189	—	—
1,828	1,377	1,112	1,242	1,577	1,617
12,274	11,776	11,397	9,700	7,618	5,686
13.7	13.4	13.9	12.6	10.8	10.1

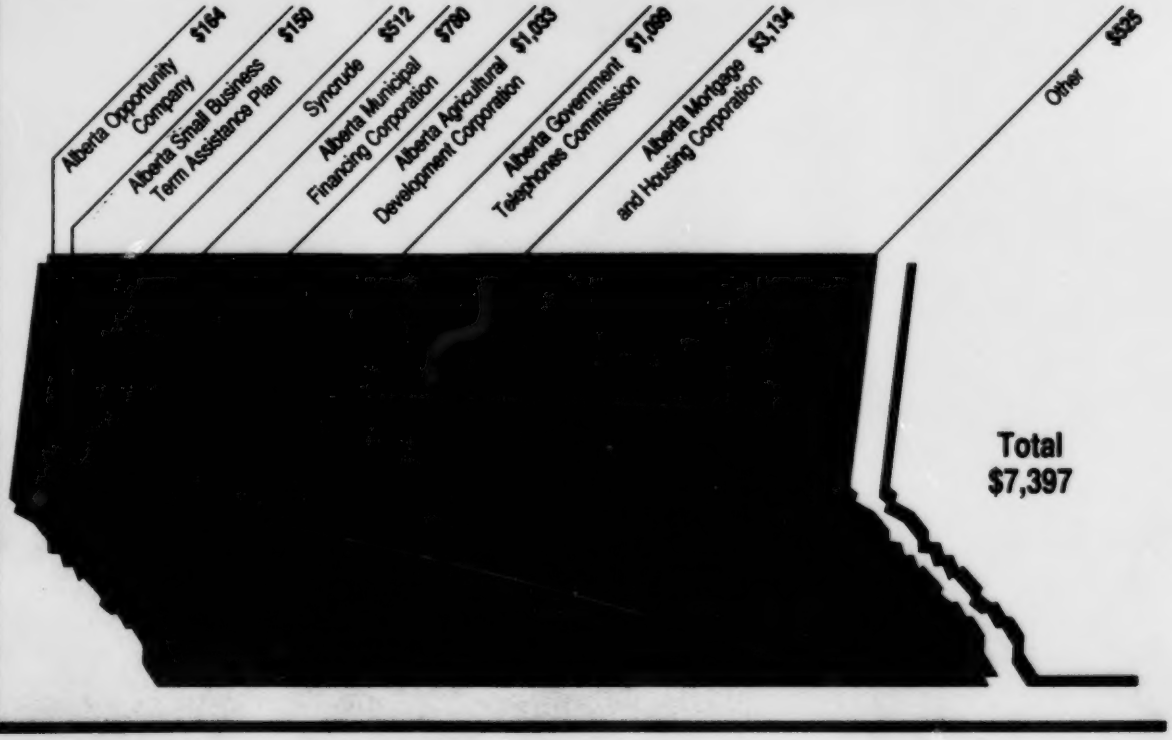
Composition of Financial Assets

As at March 31, 1989 (millions of dollars)


$7,397 Alberta Investment Division
Canada Investment Division $1,388
Commercial Investment Division $287
Cash & Marketable Securities $2,843
Capital Projects Division $200
Accrued Interest and Accounts Receivable $297
Total $12,412

Composition of Alberta Investment Division Assets

As at March 31, 1989 (millions of dollars)


Alberta Opportunity Company $164
Alberta Small Business Term Assistance Plan $150
Syncrude $512
Alberta Municipal Financing Corporation $780
Alberta Agricultural Development Corporation $1,033
Alberta Government Telephones Commission $1,089
Alberta Mortgage and Housing Corporation $3,134
Other $325
Total $7,397

Alberta Heritage Savings Trust Fund
March 31, 1989

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Auditor's Report

To the Provincial Treasurer

I have examined the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 1989 and the statements of income, retained earnings, transfers, amounts expended and fund equity, changes in financial position and Capital Projects Division amounts expended for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate nor is the presentation in accordance with generally accepted accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets which both amount to $2,913,373,000 were not included.

In my opinion, except that the inclusion of deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate as explained in the preceding paragraph, these financial statements present fairly the financial position of the Fund as at March 31, 1989 and the results of its operations, the changes in its financial position and the amounts expended within the Capital Projects Division for the year then ended, in accordance with the disclosed basis of accounting, as described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon

FCA
Auditor General

Edmonton, Alberta
July 11, 1989

Alberta Heritage Savings Trust Fund

Balance Sheet

March 31, 1989
(thousands of dollars)

		1989	1988
Assets	Cash and marketable securities, Schedule 1	**$ 2,840,754**	$ 2,797,759
	Accrued interest and accounts receivable	**296,819**	306,279
	Due from the General Revenue Fund	**2,297**	3,928
	Canada Investment Division investments, Schedule 2	**1,387,914**	1,469,716
	Alberta Investment Division investments, Schedule 3	**7,397,310**	7,520,050
	Energy Investment Division investments	**—**	1,250
	Commercial Investment Division investments, Schedule 4	**286,671**	262,875
	Capital Projects Division investments, Schedule 5	**199,995**	199,996
		$12,411,760	$12,561,853
Deemed Assets	Capital Projects Division investments, Schedule 6	**$ 2,913,373**	$ 2,758,363
Liabilities and Fund Equity	**Liabilities:**		
	Accounts payable	**$ 13,561**	$ 8,644
	Fund equity	**12,398,199**	12,553,209
		$12,411,760	$12,561,853
Deemed Equity represented by Deemed Assets		**$ 2,913,373**	$ 2,758,363

The accompanying notes are part of these financial statements.

Alberta Heritage Savings Trust Fund

Statement of Income, Retained Earnings, Transfers, Amounts Expended and Fund Equity

For the Year Ended March 31, 1989
(thousands of dollars)

		1989	1988
Income and Retained Earnings	Investment income before the undernoted	**$ 1,241,000**	$ 1,338,253
	Net gain on disposals of investments	**12,166**	16,595
	Net investment income (Note 4)	**1,253,166**	1,354,848
	Administrative expenses (Note 5)	**947**	1,366
	Net income	**1,252,219**	1,353,482
	Transfers to the General Revenue Fund (Note 6)	**1,252,219**	1,353,482
	Net increase in retained earnings	**—**	—
	Retained earnings at beginning and end of year	**3,262,247**	3,262,247
Transfers from the General Revenue Fund	Cumulative non-renewable resource revenue transfers at beginning and end of year (Note 7)	**12,049,325**	12,049,325
Amounts Expended under the Capital Projects Division	Amounts expended during the year	**(155,010)**	(129,076)
	Cumulative amounts expended at beginning of year	**(2,758,363)**	(2,629,287)
	Cumulative amounts expended at end of year	**(2,913,373)**	(2,758,363)
Fund Equity at end of year		**$12,398,199**	$12,553,209

Alberta Heritage Savings Trust Fund

Statement of Changes in Financial Position

For the Year Ended March 31, 1989
(thousands of dollars)

		1989	1988
Operating Transactions	Net income	$ 1,252,219	$ 1,353,482
	Non-cash items included in net income	(17,855)	(20,516)
	Decrease in receivables	11,091	36,359
	Increase (decrease) in payables	4,917	(53,602)
	Cash provided by operating transactions	1,250,372	1,315,723
Investing Transactions	Proceeds from disposals, repayments and redemptions of investments:		
	Canada Investment Division	83,300	389,300
	Alberta Investment Division	603,800	1,145,160
	Energy Investment Division	1,250	7,500
	Commercial Investment Division	128,992	181,179
	Capital Projects Division	1	1
	Investments:		
	Alberta Investment Division	(482,583)	(817,855)
	Commercial Investment Division	(134,908)	(193,200)
	Cash provided by investing transactions	199,852	712,085
Transfers and Amounts Expended	Transfers to the General Revenue Fund	(1,252,219)	(1,353,482)
	Capital Projects Division amounts expended	(155,010)	(129,076)
	Cash applied to transfers and amounts expended	(1,407,229)	(1,482,558)
Increase in cash and marketable securities		42,995	545,250
Cash and marketable securities at beginning of year		2,797,759	2,252,509
Cash and marketable securities at end of year		$ 2,840,754	$ 2,797,759

Alberta Heritage Savings Trust Fund

Capital Projects Division — Statement of Amounts Expended

For the Year Ended March 31, 1989
(thousands of dollars)

Department/Project	Amounts Authorized(a)	Amounts Expended	Unexpended (Over Expended)
Advanced Education			
Clinical Research Building	$ 14,100	$ 14,100	$ —
Agriculture			
Farming For The Future	5,000	4,770	230
Irrigation Rehabilitation and Expansion	25,000	24,991	9
Energy			
Alberta Oil Sands Technology and Research Authority	9,900	9,900	—
Environment			
Irrigation Headworks and Main Irrigation Systems Improvement	39,173	34,159	5,014
Land Reclamation	2,160	1,724	436
Executive Council			
Occupational Health and Safety Research and Education	1,380	1,235	145
Health			
Applied Cancer Research	2,800	2,397	403
Public Works, Supply and Services			
Capital City Recreation Park	400	364	36
Walter C. Mackenzie Health Sciences Centre	2,400	2,400	—
Recreation and Parks			
Kananaskis Country Recreation Development	460	455	5
Municipal Recreation/Tourism Areas	2,000	2,000	—
Technology, Research and Telecommunications			
Individual Line Service	57,460	56,991	469
	$162,233	155,486	$ 6,747
Recovery of amounts expended in previous years:			
Kananaskis Country Recreation Development		(340)	
Rail Hopper Cars		(118)	
Irrigation Headworks and Main Irrigation Systems Improvement		(18)	
		$155,010	

(a) Amounts authorized under the Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Act, 1988-89 have been reduced by liabilities of the prior fiscal year which exceeded the available authority in the case of Irrigation Headworks and Main Irrigation Systems Improvement in the amount of $2,227 thousand.

Note 1 **Authority**

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act, Chapter A-27, Revised Statutes of Alberta 1980, as amended.

Note 2 **Summary of Significant Accounting Policies and Reporting Practices**

(i) These financial statements have been prepared in accordance with generally accepted accounting principles, except as follows:

(a) The investment in Alberta Energy Company Ltd., which represents 35% of the total number of issued and outstanding voting shares of the company, included in the Alberta Investment Division is valued at cost. Income is recognized only to the extent that dividends are received or receivable. The book value of the investment is not adjusted for the Fund's pro rata share of retained earnings of the company.

(b) Capital Projects Division investments represent the aggregate net amount expended from November 4, 1976 to March 31, 1989 under the authority of "Appropriation Acts" passed pursuant to section 6(2)(a) of the Alberta Heritage Savings Trust Fund Act. These investments are deemed to be assets of the Trust Fund with a value equal to the net amounts expended pursuant to section 6(8)(a) of the Alberta Heritage Savings Trust Fund Act (see Note 3). Amounts expended to acquire financial assets are shown separately as assets of the Fund. Amounts expended, not recoverable by the Fund, are included in the determination of Fund equity and are shown as deemed assets on the balance sheet.

(ii) Other significant accounting policies are as follows:

(a) Securities included in the Canada Investment Division, the Alberta Investment Division and the Commercial Investment Division are valued at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the securities.

(b) The participation in joint ventures, included in the Alberta Investment Division, is accounted for on the equity basis.

(c) Bonds, bond coupons and residuals and mid-term money market securities included in marketable securities are valued at cost or market value, whichever is lower, on an aggregate basis. Short-term money market securities are valued at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the securities.

(d) The cost of disposals is determined on the average cost basis. Gains and losses arising as a result of disposals and any change in the provision to adjust the cost of marketable securities to the lower of cost or market value, on an aggregate basis, are included in the determination of net investment income.

(e) Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

(f) Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(g) Foreign currency transactions are translated into Canadian dollars by the use of an average exchange rate in effect at the transaction date. Hedged foreign currency transactions are translated at the rate of exchange established by the terms of the forward exchange contracts.

At the balance sheet date, marketable securities and payables in respect of forward exchange contracts denominated in foreign currency are translated at the rate of exchange in effect at that date.

Gains and losses arising from the translation of foreign currency denominated items are included in the determination of net investment income.

Any exchange gain or loss relating to marketable securities denominated in foreign currency that are fully hedged by forward exchange contracts is offset against the corresponding exchange loss or gain on the hedge.

Note 3 Compliance Information

The Investment Divisions shown on the balance sheet were established pursuant to section 6 of the Alberta Heritage Savings Trust Fund Act. Investments made under each of the Capital Projects Division and the Canada Investment Division are limited to 25% and 20% of the assets of the Trust Fund respectively. For the purpose of determining the assets of the Trust Fund to which these percentage limitations apply, the Act provides that investments in the Capital Projects Division shall be deemed to be assets of the Trust Fund with a value equal to the net amounts expended, while all other assets of the Trust Fund shall be valued at book value. Compliance information with respect to these statutory limits is provided in the table below.

	1989	% of Assets	1988	% of Assets
Capital Projects Division investments:				
Schedule 5	$ 199,995,000		$ 199,996,000	
Schedule 6	2,913,373,000		2,758,363,000	
	3,113,368,000	20	2,958,359,000	19
Canada Investment Division investments:				
Schedule 2	1,387,914,000	9	1,469,716,000	10
Other assets	10,810,290,000	71	10,883,497,000	71
	$15,311,572,000	100	$15,311,572,000	100

Note 4 Segmented Information

Segmented information on net investment income is as follows:

	1989	1988
Cash and marketable securities (a)	$ 271,620,000	$ 222,772,000
Canada Investment Division investments	172,639,000	222,065,000
Alberta Investment Division investments (b)	762,950,000	872,208,000
Energy Investment Division investments	29,000	921,000
Commercial Investment Division investments	35,064,000	29,723,000
Capital Projects Division investments	10,864,000	7,159,000
	$1,253,166,000	$1,354,848,000

(a) Includes $65,010,000 (1988 - $108,592,000) income from investments in Province of Alberta funds and agencies.

(b) Includes $740,103,000 (1988 - $805,993,000) income from investments in Province of Alberta funds and agencies.

Note 5 Administrative Expenses

	1989	1988
Expenses paid directly from the Fund pursuant to section 11(1) of the Alberta Heritage Savings Trust Fund Act	$130,000	$ 436,000
Other administrative expenses estimated and charged to the Fund pursuant to section 11(2) of the Alberta Heritage Savings Trust Fund Act	817,000	930,000
	$947,000	$1,366,000

Administrative expenses for the year ended March 31, 1989 relating to investments in joint ventures estimated at $566,000 (1988 - $560,000) are not included in other administrative expenses but are reflected in results of operations of the projects for the year.

Note 6 Transfers to the General Revenue Fund

All of the net income of the Fund has been transferred to the General Revenue Fund pursuant to section 4(2) of the Alberta Heritage Savings Trust Fund Act.

Note 7 Non-renewable Resource Revenue Transfer

None of the non-renewable resource revenue received by the Province was transferred to the Alberta Heritage Savings Trust Fund during the 1988-89 fiscal year (1988 - $Nil).

Note 8 Comparative Figures

The 1988 figures have been reclassified where necessary to conform to the 1989 presentation.

Note 9 Approval of Financial Statements

These financial statements were approved by management.

Alberta Heritage Savings Trust Fund

Schedule 1

Cash and Marketable Securities

March 31, 1989

	1989		1988	
	Cost	Market Value	Cost	Market Value
	(thousands of dollars)			
Bonds:				
Government of Canada, direct	$ 111,449	$ 109,914	$ 16,312	$ 16,327
Provincial:				
Alberta, guaranteed	2,866	2,859	—	—
Other, direct and guaranteed	45,087	44,369	8,080	8,066
Municipal	942	940	—	—
	160,344	158,082	24,392	24,393
Bond coupons and residuals:				
Government of Canada, direct	48,292	47,376	22,005	22,018
Province of Alberta, guaranteed	1,737	1,706	—	—
	50,029	49,082	22,005	22,018
Mid-term money market securities:				
Certificates of deposit and guaranteed investment certificates	59,502	58,713	500	504
Bankers' acceptances	25,244	25,274	—	—
Promissory notes	25,071	24,594	—	—
	109,817	108,581	500	504
Short-term money market securities (a):				
Treasury bills:				
Government of Canada	1,011,817	1,011,817	1,014,427	1,014,427
Provincial	18,404	18,404	29,125	29,125
Promissory notes:				
Province of Alberta	389,048	389,048	353,340	353,340
Other	225,629	225,629	278,431	278,431
Bankers' acceptances	474,068	474,068	683,366	683,366
Bearer deposit notes	209,989	209,989	255,779	255,779
Fully hedged deposit receipts	88,838	88,838	25,068	25,068
Certificates of deposit and guaranteed investment certificates	28,000	28,000	30,370	30,370
	2,445,793	2,445,793	2,669,906	2,669,906
Deposit in the Consolidated Cash Investment Trust Fund	79,216	79,216	80,956	80,956
	$ 2,845,199	$ 2,840,754	$ 2,797,759	$ 2,797,777

(a) The market value of short-term money market securities is estimated to approximate cost.

Alberta Heritage Savings Trust Fund

Schedule 2

Canada Investment Division Investments

March 31, 1989

	1989 Par Value	Cost 1989	Cost 1988
		(thousands of dollars)	
Debentures (a):			
Province of Manitoba	$ 110,000	$ 109,651	$ 184,445
Province of New Brunswick	172,000	170,758	170,612
New Brunswick Electric Power Commission	135,000	133,913	133,766
Province of Newfoundland	50,000	49,787	49,763
Newfoundland and Labrador Hydro	150,000	148,612	148,484
Newfoundland Municipal Financing Corporation	68,100	67,601	69,249
Province of Nova Scotia	210,000	207,844	207,649
Nova Scotia Municipal Finance Corporation	39,050	38,916	43,487
Nova Scotia Power Corporation	100,000	99,149	99,066
Province of Prince Edward Island	59,000	58,233	60,166
Hydro-Quebec	310,000	303,450	303,029
	$1,403,150	$1,387,914	$1,469,716

(a) Debentures bear interest rates from 9.50% to 16.375% with maturity dates from December 19, 1989 to July 15, 2005. The debentures are redeemable by a single payment of the full principal sum on maturity.

Alberta Heritage Savings Trust Fund

Schedule 3

Alberta Investment Division Investments

March 31, 1989

	1989	1988
	(thousands of dollars)	
Province of Alberta promissory notes (a)	$ 150,000	$ 200,000
Provincial corporation debentures (b):		
Alberta Agricultural Development Corporation	1,033,380	1,016,920
Alberta Government Telephones Commission	1,098,774	1,098,601
Alberta Mortgage and Housing Corporation	3,134,070	3,278,741
Alberta Municipal Financing Corporation	780,000	825,000
Alberta Opportunity Company	163,800	164,800
Corporate debentures:		
Bralorne Resources Limited	—	3,445
Millar Western Pulp Ltd.		
Participating debenture (c)	120,000	50,693
NOVA Corporation of Alberta Ltd.		
Adjustable rate convertible subordinate debentures (d)	150,000	150,000
Ridley Grain Ltd.		
11% participating first mortgage bonds (e)	133,976	133,976
Common shares:		
Alberta Energy Company Ltd. (f)	117,346	87,346
Canadian Western Bank	1,600	1,600
Participation in joint ventures:		
Lloydminster Bi-provincial Upgrader Project (g)	2,417	—
Syncrude Project (h)	511,947	508,928
	$7,397,310	$7,520,050

(a) Province of Alberta promissory notes bear interest rates from 9.65% to 9.9% with maturity dates from November 6, 1989 to November 23, 1990. Proceeds of the issues were deposited by the Province into the Small Business Term Assistance Fund.

(b) Provincial corporation debentures bear interest rates from 8.06% to 18.05% with maturity dates from June 15, 1989 to March 29, 2015. Interest rates on Alberta Government Telephones Commission and Alberta Municipal Financing Corporation debentures are fixed to maturity and redemption is by a single payment of the full principal sum on maturity. In general the interest rates on the other provincial corporation debentures are fixed for a five year period only and repayment is by annual instalments of the principal sum over the life of the debenture. The Provincial Treasurer may permit all or part of the other provincial corporation debentures to be redeemed by the issuer prior to maturity without penalty.

During the year debentures amounting to $41,598,000 (1988 - $83,677,000) were redeemed prior to maturity.

(c) The Province's contractual obligations to invest monies in a participating debenture of Millar Western Pulp Ltd. have been met up to the maximum authorized to be paid from the Fund. The monies have been used to finance a project to construct a pulp mill at Whitecourt, Alberta. Under the terms of the debenture, prior to repayment by the company of its bank construction loan, the Fund participates in 80% of the company's available cash flow, increasing thereafter to 90% when the company's bank construction loan is repaid. All participation payments are to be applied first in principal repayment and second in payment of interest as defined in the debenture. No interest is due until the full principal amount has been repaid. The principal is repayable over a period not exceeding fifteen years from the completion of the project or July 31, 2004, whichever is the earlier. The debenture is deemed to be repaid at any date prior to maturity (the prepayment date) if the sum of the advances made under the participating debenture, compounded at a rate of 10% per annum from the date of advance to the prepayment date, equals the sum of the participation payments received, compounded at a rate of 10% per annum from the date of receipt to the prepayment date. No interest has been accrued to March 31, 1989. Income from the debenture will be recognized to the extent that interest is received.

(d) The debentures are convertible at the Fund's option into common shares of the company on or before the earlier of February 15, 2008 or one business day prior to redemption, at a conversion rate of $10.70 per share, subject to adjustment on the occurrence of certain events as defined in the debentures. Interest is payable semi-annually at a rate equal to the greater of 6.25% per annum and the dividend yield per annum based on dividends paid in the previous six months and the conversion price, plus 1%. If the conversion price is adjusted to $11.45 per share by the company on or after February 15, 1993, interest will be fixed at the rate of 7.5% per annum thereafter. The company may elect to pay interest in common shares of the company.

The debentures are redeemable at the company's option, at the principal amount plus accrued interest on or after February 15, 1993.

The debentures mature on February 15, 2008, or as may be mutually agreed between the company and the Province. At the option of the company, the principal amount of the debentures may be repaid by common shares of the company at the average closing price of the common shares on the Toronto Stock Exchange for the 30 trading days prior to the maturity date.

(e) The Province's contractual obligations to invest monies in participating first mortgage bonds of Ridley Grain Ltd. have been met up to the maximum authorized to be paid from the Fund. The monies have been used to finance the construction of a grain terminal at Ridley Island, Prince Rupert, British Columbia. Under the terms of the debenture, prior to completion of the project, interest on the bonds is capitalized and compounded annually; thereafter interest is compounded semi-annually and payable annually and any shortfall is to be capitalized. The principal, including capitalized interest, is repayable on or before July 31, 2015. No interest has been capitalized or accrued since July 31, 1985, the date of completion of the project. Income from the bonds is recognized to the extent that interest is received.

The Fund's investment in the Project at March 31, 1989 includes capitalized interest of $27,726,000 (1988 - $27,726,000).

(f) Pursuant to section 19(1) of the Alberta Energy Company Act, the Province may not hold more than 50% of the voting shares of the company and the aggregate amount that the Province may have invested in the company at any time, or be committed to invest in common shares shall not exceed $250 million as the purchase price thereof. At March 31, 1989 the Fund held 20,959,860 common shares of the company (1988 - 19,257,732 common shares) representing 35% (1988 - 36%) of the total number of issued and outstanding voting shares of the company.

The company reported retained earnings at December 31, 1988 of $220,700,000 (1987 - $192,700,000).

(g) Authorization has been given to pay from the Fund the Province's share of equity contributions under the Joint Venture Agreement to construct and operate a Bi-provincial Upgrader in Lloydminster, Saskatchewan. As a 22.5% Class A and a 33.33% Class B participant in the joint venture, the Fund is obligated to contribute to the capital costs of the project in proportion to its participating interests, up to a maximum aggregate amount of approximately $305 million. Equity contributions to the joint venture do not bear interest and are repayable only from the Fund's share of net operating revenue generated from the operations of the upgrader, after completion of its construction in December, 1992.

Under the terms of the Agreement, prior to Husky Oil Operations Ltd. (a 25% Class A and a 33.33% Class B participant) achieving an after-tax stand alone nominal rate of return of 10% on the excess of its Class A equity contributions over its initial equity of $100 million, and assuming the Province of Saskatchewan has not exercised its option to acquire all of the Class B Participating Interests of the other joint venturers, Husky is entitled to approximately 53.33% and the Fund to approximately 16.19% of the net operating revenue of the venture, as defined in the Agreement. The Fund's participation in the project is summarized hereunder:

	1989	1988
Balance at beginning of year	$ —	$ —
Equity contributions	2,417,000	—
Balance at end of year	$2,417,000	$ —

(h) Authorization has been given to pay from the Fund the Province's share of construction and operating costs incurred under the Syncrude Project Ownership and Management Agreement. As a 16.74% participant in the project the Fund is, as lessee, entitled to its proportionate share of all substances produced subject to the liabilities to the Province of Alberta, as lessor, in accordance with the Alberta Crown Agreement. The Fund's participation in the project is summarized hereunder:

	1989	1988
Balance at beginning of year	$508,928,000	$483,316,000
Advances	172,859,000	173,162,000
Repayments	(166,763,000)	(191,657,000)
Net profit (loss) for the year	(3,077,000)	44,107,000
Balance at end of year	$511,947,000	$508,928,000

(i) Authorization was given in May, 1989, to pay from the Fund the Province's share of equity contributions under the OSLO Operating Agreement (1981) and any construction, ownership and operation agreement entered into by the Province with respect to its participating interest in the OSLO Oil Sands Project. As a 10% participant in the Project, the Fund is obligated to contribute to the development costs of the project in proportion to its participating interests, estimated to amount to approximately $309 million to the earlier of 'production start-up' or July 1, 1997. The necessary engineering studies will be completed by the participants such that a decision on whether to proceed with the project can be made no later than July 1, 1991. In the event that certain profitability and cost criteria, as defined in the agreement, are not met at that time, either the Government of Canada, the Government of Alberta or the participants could decide not to participate further in the project. The project costs incurred to that date would then be written off.

Alberta Heritage Savings Trust Fund

Schedule 4

Commercial Investment Division Investments

March 31, 1989

	1989		1988	
	Cost	Market Value	Cost	Market Value
	(thousands of dollars)			
Canadian equities (a):				
Common shares (b):				
Communications and media	$ 15,773	$ 40,124	$ 16,425	$ 35,223
Consumer products	19,571	40,653	18,551	35,102
Financial services	29,326	34,440	26,712	26,476
Gold and silver	15,943	31,579	12,335	29,490
Industrial products	24,936	46,403	16,858	32,933
Management companies	8,963	28,049	8,963	28,450
Merchandising	18,229	40,805	15,325	35,353
Metals and minerals	22,264	40,880	23,696	37,156
Oil and gas	30,373	46,892	30,513	46,596
Paper and forest products	7,028	19,316	8,709	26,156
Pipelines	9,484	14,052	12,416	20,275
Transportation	2,584	10,061	2,584	12,916
Utilities	22,292	32,854	20,778	30,205
Preferred shares:				
Merchandising	2,124	2,986	2,124	2,559
Financial services	10,968	10,653	10,968	10,253
Rights:				
Consumer products	—	—	128	123
	239,858	439,747	227,085	409,266
Short-term money market securities (c):				
Treasury bills:				
Government of Canada	36,974	36,974	1,079	1,079
Bankers' acceptances	9,839	9,839	32,468	32,468
Bearer deposit notes	—	—	2,243	2,243
	$286,671	$486,560	$262,875	$445,056

(a) The industrial classifications are those used by the Toronto Stock Exchange.

(b) At March 31, 1989 common shares with a market value of $11,889,000 (1988 - $Nil) were loaned to a borrower. The loan was secured by Government of Canada treasury bills with a market value of $13,108,000 (1988 - $Nil). During the term of the loan, the Fund retains the right to receive dividends on the securities loaned.

(c) The market value of short-term money market securities is estimated to approximate cost.

Alberta Heritage Savings Trust Fund

Schedule 5

Capital Projects Division Investments - Assets

March 31, 1989

Department/Project	1989	1988
	(thousands of dollars)	
Economic Development and Trade		
Venture Capital Financing - Vencap Equities Alberta Ltd. (a)	**$199,995**	$199,996

(a) The outstanding balance of the loan to Vencap Equities Alberta Ltd. (Vencap) is repayable in instalments of $1,000 in each of the years 1989 to 2002, inclusive, in instalments of $15,000,000 in each of the years 2003 to 2012, inclusive, and a final instalment of $49,981,000 in 2013. In the current year interest on the participating debenture securing the loan amounts to 50% (1988 - 50%) of the defined net income of Vencap. This percentage reduces as the loan is repaid and convertible debentures amounting to $40,000,000, maturing July 2, 1998 and guaranteed by the Province, are converted or redeemed. For 20 years following full repayment of the loan, the Fund will receive 10% of the defined net income of Vencap.

As further consideration for the loan the Province has been granted an option to purchase up to 4,000,000 special shares at $1 each, exclusive to the Province, convertible into common shares of Vencap. The purchase option expires on the later of the repayment of the loan and the redemption or conversion of the convertible debentures, on which later date the 20% voting rights attaching to each and all of the special shares cease.

Alberta Heritage Savings Trust Fund

Schedule 6

Capital Projects Division Investments - Deemed Assets

March 31, 1989

Department/Project	1989	1988
	(thousands of dollars)	
Advanced Education		
Alberta Heritage Scholarship Fund	$ 100,000	$ 100,000
Clinical Research Building	14,100	—
Library Development	9,000	9,000
Agriculture		
Farming For The Future	48,577	43,807
Food Processing Development Centre	9,013	9,013
Irrigation Rehabilitation and Expansion	262,061	237,070
Economic Development and Trade		
Rail Hopper Cars	53,661	53,779
Education		
Alberta Heritage Learning Resources	9,222	9,222
Energy		
Alberta Oil Sands Technology and Research Authority	413,549	403,649
Environment		
Irrigation Headworks and Main Irrigation Systems Improvement	396,623	362,482
Land Reclamation	32,963	31,239
Lesser Slave Lake Outlet	2,889	2,889
Paddle River Basin Development	41,781	41,781
Executive Council		
Occupational Health and Safety Research and Education	7,390	6,155
Forestry, Lands and Wildlife		
Alberta Reforestation Nursery	14,739	14,739
Grazing Reserves Development	39,094	39,094
Maintaining Our Forests	24,960	24,960
Health		
Alberta Children's Provincial General Hospital	40,477	40,477
Applied Cancer Research	38,493	36,097
Applied Heart Disease Research	29,341	29,341
Tom Baker Cancer Centre and Special Services Facility	93,204	93,204
Public Works, Supply and Services		
Capital City Recreation Park	42,742	42,378
Fish Creek Provincial Park (Land)	28,237	28,237
Walter C. Mackenzie Health Sciences Centre	389,869	387,469
Recreation and Parks		
Fish Creek Provincial Park (Development)	16,859	16,859
Kananaskis Country Recreation Development	224,729	224,613
Municipal Recreation/Tourism Areas	7,475	5,475
Urban Parks	86,650	86,650

continued...

Capital Projects Division Investments - Deemed Assets

Schedule 6

continued...

Department/Project	1989	1988
	(thousands of dollars)	
Technology, Research and Telecommunications		
Alberta Heritage Foundation for Medical Research Endowment Fund	**300,000**	300,000
Electronics Test Centre	**6,175**	6,175
Individual Line Service	**105,391**	48,400
Microchip Design and Fabrication Facilities	**7,750**	7,750
Transportation and Utilities		
Airport Terminal Buildings	**16,359**	16,359
	$2,913,373	$2,758,363

(a) Commitments for expenditure on capital projects aggregated approximately $56,255,000 at March 31, 1989.

Claims and potential claims pending at March 31, 1989 in respect of various capital projects exceeded amounts expended by approximately $18,851,000 (1988 - $16,047,000). The resulting loss, if any, from these claims and potential claims cannot be determined.

MEMBERS OF THE ALBERTA HERITAGE SAVINGS TRUST FUND INVESTMENT COMMITTEE

The Honourable D. Getty
The Honourable D. Johnston
The Honourable J. Horsman
The Honourable A. Adair
The Honourable L. Fjordbotten
The Honourable P. Elzinga
The Honourable R. Orman
The Honourable E. Isley
The Honourable N. Betkowski
The Honourable K. Rostad
The Honourable F. Stewart
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The Honourable J. Dinning
The Honourable D. Sparrow
The Honourable E. McCoy
The Honourable D. Anderson
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The Honourable N. Weiss
The Honourable P. Trynchy
The Honourable J. Gogo
The Honourable S. West
The Honourable S. McClellan
The Honourable R. Speaker
The Honourable R. Klein
The Honourable D. Fowler
The Honourable D. Main

MEMBERS OF THE SELECT STANDING COMMITTEE ON THE ALBERTA HERITAGE SAVINGS TRUST FUND ACT

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